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Royal Commission on Banking and Finance

Hearings
held at
Montreal

Vol.
17

Date.
May 16 1962



Official Reporters
J. J. Pethercut and R. J. Young
Toronto, Ont.



ROYAL COMMISSION ON BANKING
AND FINANCE
AND FINANCE

Hearings held at Montreal,
Quebec, on Wednesday,
May 16th, 1961.

I N D E X

La Fédération des Caisses d'épargne

1785

Desjardins

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Luss
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



Nethercut & Young

Toronto, Ontario

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AND FINANCE

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La Federation de Montreal des Caisses

Desjardins

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Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Macdonald

Kirkland, Ontario

Mr. H.A. Hampton



Wednesday, May 16th, 1962.
Montreal, Quebec.

--- On resuming at 9.30 A.M.

THE CHAIRMAN: I shall now call the meeting
to order. We have the submission of La Federation
de Montreal des Caisses Desjardins.

SUBMISSION OF LA FEDERATION DE
MONTREAL DES CAISSES DES JARDINS

APPEARANCES

Mr. P. Viau - Inspector
Mr. A. Lamarche - General Manager
Mr. P.E. Blain - Counsel
Mr. G. Emery - Counsel

MR. LAMARCHE (Speaking in French, the
following being an interpretation): Mr. Chairman,
gentlemen, as secretary-general of the Montreal
Federation of the Desjardin banks allow me to summarize
very briefly the nature and role and the purposes of
this economic institution which is called a people's
bank -- Caisse Populaire.

You have in the brief which has been
submitted to you by the Montreal Federation of Desjardin
banks, a detailed account of the origins and the
structure and the methods of operation used by the
affiliated banks. I will, therefore, confine myself
to outlining certain essential elements which confer

Wednesday, May 10th, 1961
Montreal, Quebec

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SUBMISSION OF LA FEDERATION DE
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- Inspector Mr. P. Vian
- General Manager Mr. A. Lamarche
- Counsel Mr. G. Bessy

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following being an interpretation): Mr. Chairman,
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submitted to you by the Montreal Federation of Desjardins
a detailed account of the origins and the
structure and the methods of operation used by
affiliated banks. I will, therefore, confine
myself to pointing out certain essential elements which



1 on our banks their particular characteristics.

2 The people's bank is a co-operative
3 institution of savings and credit which was set up
4 under the provisions of the Provincial legislation
5 under the designation of the law of co-operative
6 movements in Quebec as is given in Chapter 290 of the
7 Quebec Statutes for the year 1941. Let us stress the
8 exclusively provincial character of our institution
9 whose field action cannot be extended beyond the
10 limits of the Province of Quebec. It is a co-operative
11 movement and our institution brings together people
12 who wish to work together on an economic and social
13 basis. For these purposes our members must finance at
14 least part of the registered capital in order to obtain
15 the services and advantages from this institution. In
16 any case, each member does have equal rights which
17 arise from his participation in the society and which
18 are in no wise determined by the number of shares that
19 the members may hold in the capital of the enterprise.
20 Thus at the general assembly of members each member
21 has the right to vote, which he exercises in his own
22 behalf and which enables him to express his views on
23 the management of the society. When we have to elect
24 members of the board of administration or the
25 supervisory council, and members of the credit committee,
26 or to determine the percentage of dividends to be paid
27 to the members on the registered capital, or when we
28 have to take any important decision affecting the
29 administration of our institution, in such cases each
30 member who has a single share will have as much

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member who has a right share will have as one



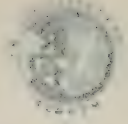
1 influence as other members who may have the major
2 share in the registered capital.

3 The capital accumulated either in the form
4 of registered capital or in the form of savings
5 accounts held by the members enables our institution
6 to offer its members credit facilities and at the same
7 time to provide them with income in the form of dividends
8 and interests as well as refunds and loans.

9 We should bear in mind that this institution
10 does not make any profit and has no lucrative object.
11 All surpluses must be distributed amongst the members
12 after the bank has set up a reserve fund in accordance
13 with the obligations imposed upon it by law.

14 As to the value of the shares in the
15 registered capital, there can be no fluctuations here
16 because it is determined by a fixed amount, namely,
17 \$5 per share.

18 The role of our institution: Our institution
19 was founded in order to meet the needs of all those who
20 do not have access to the great financial and economic
21 institutions. It enables these people to form a group
22 and establish a common capital which will give them
23 advantages and profits which they cannot obtain otherwise.
24 Through its structure and because of its limited
25 territorial jurisdiction, this institution is better
26 able to appreciate the concrete situation in which
27 it is called upon to play a role. It studies each
28 particular case in the light of the particular conditions
29 prevailing rather than on the basis of overly rigid
30 standards. Unlike other financial institutions which



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As to the value of the shares in the

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because it is determined by a fixed amount, namely,

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and establish a common capital which will give them

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able to appreciate the concrete situation in which

it is called upon to play a role. It studies each

particular case in the light of the particular condition

prevailing rather than on the basis of overly rigid

standards. Unlike other financial institutions which



1 are interested primarily in commerce and industry,
2 our institution carries on its activities on the personal
3 basis and on the parish basis. When a request is
4 received for a loan the credit committee, therefore,
5 gives determining importance to the moral value of
6 the person asking for the loan. Sometimes, danger
7 is stressed to a person who asks for such a loan
8 in applying for a loan that does not serve useful
9 purposes. On the other hand, our organization enables
10 each member to increase his own monies without running
11 any risk and in accordance with the methods which are
12 best adapted to his own personal situation.

13 The purpose: The popular banks in Quebec
14 aim first at insuring for their members a certain degree
15 of economic stability by placing at their disposal
16 a savings and credit service which cannot be found
17 in any other financial institution. The co-operative
18 system of savings and credit which is involved in the
19 popular banks is necessary and profitable to our entire
20 society.

21 The federation: The Montreal Federation
22 of Desjardins banks which has 22 affiliated associations
23 today originates from a central body which is able
24 to bring its members guidance and co-ordination which
25 are necessary for the development of the co-operative
26 movement. In respecting and observing the independence
27 of the banks our federation has the right and the
28 power to exercise effective control over them by means
29 of an inspection service which enables it to observe
30 and detect any errors or any irregularities committed

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1 by the administrators of the banks and take in each
2 individual case those measures which are judged
3 indispensable in order to insure for the members full
4 and entire security. Generally speaking, we might
5 say that our federation acts amongst the banks as a
6 controller and technical advisor for the purpose of
7 spreading more precise ideas on banking which would be
8 best designed to perfect administrative methods and
9 seeks to spread its movement by healthy propaganda.
10 We offer our affiliated banks compensation services
11 payment and orders. These can be obtained by the members of each
12 of these banks.

13 I wish to thank/ you,
14 Mr. Chairman and gentlemen,
15 for giving me your careful attention in listening to
16 this summary which, of course, is necessarily incomplete.
17 I hope you have found in our brief information and
18 details which will enable you to perform the analysis
19 and study that you are presently conducting.

20 THE CHAIRMAN: Thank you.

21 (The following questions and answers
22 are an interpretation from the French)

23 -----

24 COMMISSIONER LEMAN: Mr. Lamarche, I think
25 I can state on behalf of my colleagues that we have found
26 your brief very interesting. It is quite full of
27 important and useful information for us. Nonetheless,
28 we have a few questions that do arise in our minds.

29 First, in order to clarify the position of your
30 federation in the Province of Quebec, there is a certain



of the administrators of the banks and take in each individual case those measures which are judged indispensable in order to insure for the members full and entire security. Generally speaking, we might say that our federation acts amongst the banks as a controller and technical advisor for the purpose of spreading more precise ideas on banking which would be best designed to perfect administrative methods and seeks to spread its movement by healthy propaganda. We offer our affiliated banks compensation services and orders. These can be obtained by the members of each of these banks.

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I can state on behalf of my colleagues that we have found your brief very interesting. It is quite full of important and useful information for us. Nonetheless, we have a few questions that do arise in our minds.



1 point which is rather dubious for me, namely, the
2 structure of your federation is based on a separation
3 from the greater federation of the province, and I
4 understand that there are 22 banks which are members
5 of your federation and which are all located within
6 Montreal. There were only 8 at the time of the
7 separation, as I understand it. Now, was it then
8 decided that your federation would include only those
9 banks included in the diocese of Montreal, or were
10 there other provisions involved?

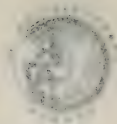
11 MR. LAMARCHE: The statute of the Montreal
12 Federation of Desjardins Banks states the territorial
13 limit in which the Montreal federation may operate.
14 If you allow me, sir, I will state these limits.

15 Actually, it is the ecclesiastical province
16 of Montreal, sir, here. All our banks were members
17 of the Montreal diocese until the time of the division
18 of the Montreal diocese which set up the St. Jerome
19 diocese. In other words, they were all members of the
20 religious diocese of Montreal and their activities
21 do not go beyond this limit.

22 COMMISSIONER LEMAN: Well, what is the size
23 of this territory that is really the diocese of
24 Montreal? Does this correspond to Metropolitan
25 Montreal?

26 MR. LAMARCHE: Well, it is a little bigger
27 than Metropolitan Montreal.

28 COMMISSIONER LEMAN: Well, when you mention
29 the statutes of your federation, is this a document
30 that you have in mind?



structure of your federation is based on a separation from the greater federation of the province, and I understand that there are 24 banks which are members of your federation and which are all located within Montreal. There were only 3 at the time of the separation, as I understand it. Now, was it then decided that your federation would include only those banks included in the diocese of Montreal, or were there other provisions involved?

MR. LAMARCHE: The statute of the Montreal Federation of Desjardins Bank states the territorial limit in which the Montreal federation may operate. If you allow me, sir, I will state these limits. Actually, it is the ecclesiastical province of Montreal, sir, here. All our banks were members of the Montreal diocese until the time of the division of the Montreal diocese which set up the St. Jerome diocese. In other words, they were all members of the religious diocese of Montreal and their activities do not go beyond this limit.

COMMISSIONER LAMARCHE: Well, what is the size of this territory that is really the diocese of Montreal? Does this correspond to Metropolitan

MR. LAMARCHE: Well, it is a little bigger

COMMISSIONER LAMARCHE: Well, when you mention the statutes of your federation, is this a document that you have in mind?



1 MR. LAMARCHE: Well, we can submit the law
2 of Quebec groupings as regards the Quebec federation.
3 The statutes -- I think we have already submitted
4 these documents to you, and it should be available to
5 you, sir.

6 COMMISSIONER LEMAN: Well, Mr. Lamarche,
7 there are a few other details I should like to know,
8 and also the other members of the Commission would also
9 like to know something about them. Does a member of
10 your bank -- can he be an individual, or can a company
11 or firm become a member of your bank?

12 MR. LAMARCHE: The law of co-operative
13 movements states what type of individuals or groups
14 can deal with our banks. Those persons can be members
15 of our banks who are municipalities or corporations or
16 agricultural societies, fishing societies, and also
17 civil and commercial corporations in general can become
18 members. It is Article VII of the law of co-operative
19 movements which gives this power of membership.

20 COMMISSIONER LEMAN: Can you lend to your own
21 members or can you lend to anybody?

22 MR. LAMARCHE: We can lend only to our own
23 members.

24 COMMISSIONER LEMAN: Do you grant loans to
25 businessmen or business groups?

26 MR. LAMARCHE: Well, as we see it, the purpose
27 of this brief and the purpose of this Commission, as
28 we see it, is to ascertain the true facts with respect
29 to most or all of the operations that are conducted.
30 Now, if we observe the terms of this definition we can

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1 state that our banks do not give loans to business
2 groups; they do not give loans to businessmen, as such.

3 COMMISSIONER LEMAN: Does your reply simply
4 concern your own federation or does it concern all
5 popular bank groupings?

6 MR. LAMARCHE: On behalf of our own group,
7 this reply concerns only our own group and our
8 affiliated banks.

9 COMMISSIONER LEMAN: Why? Is there a reason
10 why you do not grant loans to business groups? Is it
11 a matter of principle, or what is the reason?

12 MR. LAMARCHE: Well, this is due to the fact
13 that we give loans neither to business or commercial
14 organizations; this is because of our organization.
15 The popular banks were founded and they exist in
16 order to fill a gap in the economic system to help
17 the less fortunate elements of our population -- to
18 help them on a family and social basis, to give
19 individuals assistance rather than to give assistance
20 to merchants. We also believe that there are other
21 institutions that can meet the needs of industry and
22 commerce and finance circles. Therefore, we do not
23 wish to encroach on the operations of other institutions
24 which generally furnish satisfactory service.

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Nethercut & Young

Toronto, Ontario

- 1797 -

1 Our purpose is simply to assist individuals who do
2 not have the same facilities to obtain loans under
3 the existing capitalist system.

4 COMMISSIONER LEMAN: I note particularly
5 in your brief at page 5 under the heading "Credit
6 Commission" reference to the fact that the
7 essential purpose of your movement is to provide
8 your members with credits which they cannot obtain
9 elsewhere. Is this a general remark that you
10 are making, or do you actually ascertain in each
11 individual case that the credit requested by each
12 member is not accessible to that member through
13 the other means?

14 MR. LAMARCHE: Tests have been made on
15 several occasions. We can say, generally speaking,
16 that credit requests made by members to the people's
17 banks would be difficult to obtain under reasonable
18 terms. We have in mind, for example, mortgage
19 loans which in certain places do not constitute
20 a very great problem. However, for our own group
21 of people's banks, there are certain places where
22 the central mortgage societies either directly or
23 through the intermediary of an insurance company
24 would not grant such mortgages because the drainage
25 and sewage services have not been installed. You
26 can find this on Ile Jesus and at many other places.

27 In respect to personal loans, we might
28 say that everyone could obtain a loan elsewhere
29 than at one of our banks, but they could obtain
30 these loans only from a finance company at exorbitant



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COMMISSIONER LEWIS: I note particularly

in your brief at page 5 under the heading "Credit Commission" reference to the fact that the essential purpose of your movement is to provide your members with credits which they cannot obtain elsewhere. Is this a general remark that you are making, or do you actually ascertain in each individual case that the credit requested by each member is not accessible to that member through the other means?

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1 rates of interest, and you are aware of these
2 exorbitant rates.

3 COMMISSIONER BROWN: What rates do they
4 charge?

5 COMMISSIONER LEMAN: Mr. Brown asks
6 me to ask you what rate of interest you charge
7 for personal loans.

8 MR. LAMARCHE: The average rate is about
9 $6\frac{1}{2}$ per cent.

10 COMMISSIONER LEMAN: What is the rate that
11 you charge on mortgages?

12 MR. LAMARCHE: The rates of interest on
13 mortgages are about the same. There is no great
14 variation between $6\frac{1}{2}$ per cent up to 7 per cent.
15 However, I think it is necessary to stress here
16 that in respect to these interest rates, both on
17 personal loans and mortgages, ^{they}are covered by life
18 insurance which amounts to approximately three-
19 quarters of one per cent. This is included in
20 the $6\frac{1}{2}$ to 7 per cent, so this would actually reduce
21 the rate of interest on the loans to something below
22 $6\frac{1}{2}$ or 7 per cent.

23 COMMISSIONER BROWN: Thank you.

24 COMMISSIONER LEMAN: Now I should like to
25 refer to another subject, Mr. Lamarche.

26 I understand part of the philosophy of
27 the movement embodies the idea of cooperation.
28 Nevertheless, in your Federation there are certain
29 units that are very large and important, the
30 largest having a certain number of members. What is

rates of interest, and you are aware of these exorbitant rates.

COMMISSIONER BROWN: What rates do they

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quarters of one per cent. This is included in

the 6½ to 7 per cent, so this would actually reduce

the rate of interest on the loans to something below

6½ or 7 per cent.

COMMISSIONER BROWN: Thank you.

COMMISSIONER LEMAN: Now I should like to

refer to another subject, Mr. Lamarche.

I understand part of the philosophy of

the movement embodies the idea of cooperation.



1 that number?

2 MR. LAMARCHE: The largest have from
3 8,000 to 14,000 members.

4 COMMISSIONER LEMAN: When you have between
5 8,000 and 14,000 members you cannot have very close
6 personal knowledge of the members, is that not a
7 fact?

8 MR. LAMARCHE: I think we should, never-
9 theless, take into account the fact that in spite
10 of this large membership, 14,000 members, a bank
11 bank does not reach that level from one day to
12 the next. That is my first point.

13 Secondly, the banks are organized on a
14 parish basis. Now, those who know how our French
15 Canadian parishes operate will know that there
16 are several bodies of a religious or semi-religious
17 character where people meet very often and where
18 people can get to know each other.

19 Thirdly, in our banks we do not have what
20 you have in the ordinary banking system where
21 an employee is moved from one branch to another;
22 one branch may be at the other end of the country.
23 Generally with us the supervising personnel of
24 a bank are there on the spot and on the job almost
25 for life. I think that without claiming that there
26 is absolute intimate knowledge of each member in
27 the bank, we do have much closer knowledge than that
28 which exists in other capitalist type institutions.

29 COMMISSIONER LEMAN: From what you have
30 said, Mr. Lamarche, can you now describe what happens



that number?

MR. LAMARCHE: The largest have from

8,000 to 14,000 members.

COMMISSIONER LEMAN: When you have between

8,000 and 14,000 members you cannot have very close

personal knowledge of the members, is that not a

fact?

MR. LAMARCHE: I think we should, never-

theless, take into account the fact that in spite

of this large membership, 14,000 members, a

bank does not reach that level from one day to

the next. That is my first point.

Secondly, the banks are organized on a

parish basis. Now, those who know how our French

are several bodies of a religious or semi-religious

character where people meet very often and where

people can get to know each other.

Thirdly, in our banks we do not have what

you have in the ordinary banking system where

an employee is moved from one branch to another;

one branch may be at the other end of the country.

Generally with us the supervising personnel of

a bank are there on the spot and on the job almost

for life. I think that without claiming that there

is absolute intimate knowledge of each member in

the bank, we do have much closer knowledge than that

which exists in other capitalist type institutions.

From what you have

Mr. Lamarche, can you now describe what happens



1 at the annual meetings of the bank? I think there
2 are elections of officers of the bank and others
3 who have to direct the bank. You have explained
4 that in general these people remain at their jobs
5 for a long time. I understand they also have
6 other stable employment, but what do they do at
7 the annual assembly? Are there competitive
8 elections or is everything carried out very quietly?
9 What actually happens?

10 MR. LAMARCHE: The elections at the bank
11 are not like provincial, federal or even municipal
12 elections, but much calmer. It may happen from
13 time to time that there are differences of opinion.

14 The cooperative movement is a large family
15 and there are really no difficulties involved in
16 that regard. As a general rule the elections take
17 place in an atmosphere of calm and tranquility.
18 Of course, there are replacements when a director
19 or officer of a bank reaches a certain age. There
20 is a question of replacing him with a younger man,
21 but we have no difficulty, and that takes place quite
22 naturally.

23 COMMISSIONER LEMAN: Do you feel that
24 members have a very active interest in the conduct
25 and the business of the bank? Is there, for instance,
26 discussions and criticism as to how the bank is
27 directed?

28 MR. LAMARCHE: Yes, there are discussions
29 at all of our general assemblies. The governing
30 body or board must present financial reports



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1 for the past financial year giving a certain amount
2 of detail and the state of the income and expenditures.
3 The loans committee also presents a report on the
4 number of loans that have been granted and on the
5 different classes of loans. For instance, there
6 is a report regarding loans from zero to \$500
7 and from \$500 to \$1,000, and so on. This is done
8 in respect to personal loans and mortgages. The
9 supervising council also submits a report, and each
10 of these three reports is presented for study and
11 discussion. At some stages discussion is more
12 active, and less active at other stages. There is
13 of course some discussion in regard to these reports.

14 In addition to this, the members have
15 the right to submit their own suggestions and to
16 present their own ideas with regard to the general
17 management of the bank.

18 COMMISSIONER LEMAN: Now, we must go on
19 from the bank as a unit to the part played by the
20 Federation in the system.

21 COMMISSIONER BROWN: Before we go on to
22 the Federation as such, I should like to ask one
23 or two questions.

24 Of the membership which can vary between
25 8,000 and 14,000 in the larger cases, what proportion
26 would have deposits in excess of borrowings, and
27 what proportion would have borrowings in excess of
28 deposits? To continue with the same question, at
29 your annual meetings are there ever instances where
30 the borrowers try to outvote the depositors?



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COMMISSIONER BROWN: Before we go on to

the Federation as such, I should like to ask one
or two questions.

Of the membership which can vary between
\$3,000 and \$10,000 in the larger cases, what proportion
would have deposits in excess of borrowings, and
what proportion would have borrowings in excess of



1 MR. LAMARCHE: If I understood your
2 question properly -- I missed a portion of the
3 translation -- I should say that in 1961, December 31,
4 we had 65,900 members in our banks and 8,800
5 borrowers, so you see the great majority of the
6 shareholders are not borrowers.

7 At the general meeting this problem does
8 not arise as far as we know because the interests
9 of the different sections are more or less smoothed
10 out. Everyone finds his own particular advantage.
11 Some wish to have a rate of interest as high as
12 possible, or the largest dividend possible on his
13 share in the capital, while the borrower on the
14 other hand wants to have the cheapest borrowing
15 conditions possible and returns on the loans, so
16 we find that these things cancel out each other
17 and a balance is achieved between the two factors
18 that may apparently seem to impose one upon the
19 other. In practice we have never observed that
20 the borrowers direct the administration of the
21 bank for their own advantage or that others can
22 do so. We find that a balance is always maintained.

23 Does that sufficiently answer your
24 question?

25 COMMISSIONER BROWN: Yes, thank you very
26 much. I actually wanted to know the proportion
27 between the depositors and borrowers and apparently
28 it is about eight to one. Thank you.

29 COMMISSIONER GIBSON: Mr. Lamarche, I
30 would like to ask you just a few additional questions

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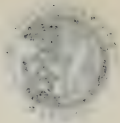
1 about the management and the role of the depositors
2 and shareholders. You have annual meetings. How
3 frequently do you have board meetings during the
4 year? How frequently do you have supervisory
5 meetings of your membership?

6 MR. LAMARCHE: The meetings of the boards
7 of our banks must be held at least once per month
8 and, if necessary, there should be meetings more
9 frequent than once a month. They are held
10 according to requirements.

11 COMMISSIONER GIBSON: At these meetings,
12 do the board members discuss the individual credits
13 right down to the small ones, and mortgage loans
14 or do they simply have a general look at what is
15 going on?

16 MR. LAMARCHE: The board members do not
17 deal with the loans. We have a loan committee
18 dealing with the loans and that committee has
19 complete control of these loans. This loan
20 committee is not subject to the supervision of
21 the board but is subject to the control of the
22 general assembly. I would like to make this
23 correction. I do not want to give the impression
24 that there is the same frequency of meetings of
25 this board as of the other board. The loans
26 board or loans committee has a meeting every week
27 at most of the banks because of the applications
28 for loans that have come in during the week.

29 COMMISSIONER GIBSON: I understand the
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COMMISSIONER GIBSON: I understand the



1 members of the loans committee are all shareholders
2 and voluntary workers rather than paid workers, is
3 that correct?

4 MR. LAMARCHE: The loan committee members,
5 like those members of all the boards, receive no
6 salaries, nor do they receive any special allowances
7 of any kind. This is strictly on the basis of
8 voluntary work.

9 COMMISSIONER GIBSON: Do those members
10 pass on loans or do the staff members have the right
11 to pass on loans at their own discretion? I
12 refer, of course, to loans and mortgages.

13 MR. LAMARCHE: The loan committee deals
14 with all loans. The manager of the bank has no
15 right to grant a loan. He has not the authority
16 to do so. The loans committee has the respon-
17 sibility for this.

18 COMMISSIONER LEMAN: Now, Mr. Lamarche,
19 we shall go on to a discussion of the Federation
20 itself and the part it plays in the group.

21 The Federation serves to supervise the
22 whole of the group to some extent, one might say?

23 MR. LAMARCHE: Perhaps quite a lot.

24 COMMISSIONER LEMAN: So the association
25 is on a strictly voluntary basis. The Federation
26 as such has no actual authority in respect to the
27 different units?

28 MR. LAMARCHE: The Federation by virtue
29 of that law is a cooperative movement or union,
30 and by virtue of its own constitution has

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- 1805 -

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2 not to affiliate, with the Montreal Federation of
3 Desjardins. If they join the Federation in
4 Montreal of the Desjardins banks they have to accept
5 the rules that are kept up for all the participating
6 banks. On the other hand, the law compels the
7 banks to be inspected at least once per year by
8 the organized Federation. The Federation has
9 certain powers which while fully respecting the
10 independence and economy of the banks, to see that
11 the public money is protected. That is the first
12 part of the rules applied by the Federation. The
13 central organization supervises and makes sure that
14 the money deposited is managed according to the
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Journal of the
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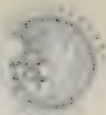
1 COMMISSIONER LEMAN: What would be the
2 main sanctions that could be imposed by the
3 Federation if they found a bank that had practices
4 that it could not approve of? Would it have to
5 be disaffiliated or what would happen?

6 MR. LAMARCHE: The expulsion of a bank
7 is an extreme measure. We may say that we expel
8 a bank because we have not been able to solve a
9 problem about them. In 99.9 per cent of the
10 cases the problems are solved before we get to
11 that point.

12 COMMISSIONER LEMAN: There is one thing
13 rather remarkable in Quebec, Mr. Lamarche. It
14 is that the law seems to say nothing on the details
15 of operation of banks. Do you think it would be
16 advantageous for the law in Quebec with regard
17 to all this question of cooperative loan institutions,
18 that it should be developed more than it is at
19 the present time?

20 MR. LAMARCHE: With all respect that is
21 due to this Royal Commission we do not wish to
22 discuss the legal aspect, nor any recommendations
23 that we might wish to make to the authorities
24 concerned.

25 COMMISSIONER LEMAN: Your answer surprises
26 me a little. I do not want a detailed report,
27 but I want to see in such legislation whether in
28 your opinion something should be done in that
29 direction. Would you be in favour of a greater
30 development of the law than we have at present?



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1 It is a general question I am asking you.

2 MR. LAMARCHE: We might say in a general
3 way that all laws benefit from being improved and
4 I think that everything that is under human
5 administration is imperfect to a larger or smaller
6 extent. The laws, as everything else here below,
7 necessarily could be improved.

8 COMMISSIONER LEMAN: You said a few moments
9 ago that most of the problems that can arise during
10 the inspection to see how the banks are administrated,
11 in 99.9 per cent everything is arranged by
12 discussion, but in practice do you find certain
13 tendencies on the part of the banks which the
14 Federation would not generally approve of?

15 MR. LAMARCHE: I think we might state
16 that in general the trends that are evident in the
17 different banks are normal ones. They are acceptable
18 and there is no need to face this problem from our
19 point of view.

20 COMMISSIONER LEMAN: Nevertheless, there
21 may be cases where the Federation wants to in one
22 way or another reprimand a bank. How has that been
23 done in the past?

24 MR. LAMARCHE: We have a case at present
25 which is before the courts and it is impossible for
26 us to discuss here a case which is before the court
27 at the present time. That is the only case we have
28 had after 16 years since the foundation of the
29 Montreal Federation and it is impossible for us to
30 give information on this question while it is sub

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1 judice.

2 COMMISSIONER LEMAN: Could you not tell
3 me in general what kind of problems arise in such
4 cases?

5 MR. LAMARCHE: This is a question which is
6 part of the public document that is before the court.
7 and we can mention the facts that have been mentioned
8 and have come from a group of administrators who
9 were deceived by the manager and they believed that
10 they were obliged to support their manager in spite
11 of certain facts, serious facts that had been brought
12 to their knowledge with regard to certain deposit
13 accounts and loan accounts in the bank.

14 COMMISSIONER BROWN: To deal with this
15 in a more general way and to still get an opinion,
16 section 21 of the act says that the board of super-
17 visors of every cooperative syndicate for credit,
18 provident or other economic purposes shall at least
19 once a year cause all the operations of the unit
20 to be audited by an inspector of the Federation under
21 Section 49, et cetera. I gather that while they
22 have to be audited by one of your inspectors you
23 have not really got very much power to impose sanctions
24 other than expelling them from your Federation. Would
25 you be in favour of having more power in this statute
26 so that you could in fact ensure that they
27 operated in accordance with the legal requirements?

28 MR. LAMARCHE: First of all we have an
29 inspection service which has the powers of any auditor.
30 It has access to all the documentation and if serious

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1 errors are found in the management of the funds
2 there are avenues of action which are accessible.
3 They can exert the powers of the supervisory body
4 of the bank and the powers of the supervisory board
5 are permanent in the bank itself and, as I was saying
6 as for the other committees they are subject to the
7 control of the general meeting and the supervisory
8 board has the power to suspend from their employment
9 any employee of the bank and even the members of
10 the loans committee. If on inspection serious
11 matters are disclosed then the supervisory body
12 can exercise these powers. If, in spite of that,
13 we do not succeed in solving the problem and it
14 is desirable to expel a bank, then the law
15 forbids that organization from bearing the name
16 of Caisse Populaire because only these affiliated
17 Caisses Populaires, these banks affiliated to the
18 Federation can bear the names Caisse Populaire
19 or Caisse Desjardins or Caisse Desjardins Populaire.
20 They would have to take on another name in order
21 to continue operation.

22 COMMISSIONER BROWN: Have you the power
23 to call a general meeting of all the members in such
24 a case, in case the supervisory body does not carry
25 out what you considered to be the appropriate action?

26 MR. LAMARCHE: Sir, you are asking a
27 hypothetical question there, because in practice
28 we have only had one case, the one that I mentioned
29 a few moments ago, and we were able to convene
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a few moments ago, and we were able to convene



1 a general meeting of the shareholders in that case.
2 But in practice to my knowledge we have never
3 had any need to go so far.

4 COMMISSIONER BROWN: Thank you.

5 COMMISSIONER LEMAN: Mr. Lamarche, I
6 would like to pass on to another subject. I
7 think we have completed our study on the points
8 that we have mentioned up to now. Now, I would
9 like to have an idea of your general policy with
10 regard to the liquidity of the banks and of the
11 Federation itself and the solvency of these banks.
12 You have given us a good idea of the general
13 financial situation but with regard to the policy
14 recommended by the Federation to the banks, could
15 you give us your general view of the percentages
16 which should be kept in the different banks as
17 liquid assets?

18 MR. LAMARCHE: According to our own
19 regulations we request the banks to maintain about
20 8 per cent of their assets in deposits to the
21 Federation. This means that the banks have to
22 have a percentage of liquid assets that is higher than
23 for the needs of operating the counter and we
24 can say that the bank maintains 5 per cent liquid
25 assets and 5 per cent goes to the Federation plus
26 another 5 per cent not based on assets so that you
27 will see that with regard to these percentages
28 this is found on pages 15 and 16 of our report
29 where we give details of the operation.

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1 two funds, one term fund and one fund which is on
2 sight, and the fund receives from each affiliated
3 bank the equivalent of 3 per cent of the savings
4 based on the first of November previously.

5 With regard to the funds on sight which
6 refers to the compensation, that is, the bank
7 cheques and cash order payments, this is a system
8 accepted by all banks that 5 per cent is the figure
9 that has been fixed -- 5 per cent on the assets.

10 COMMISSIONER LEMAN: Now, what is the
11 policy of the Federation itself?

12 MR. LAMARCHE: We have very carefully
13 kept abreast of the discussions that were conducted
14 before this Commission at the time the credit
15 unions appeared. We realize that the standards
16 for liquid assets differ from those in the banking
17 system. This is due to the fact that since there
18 are deposit savings accounts and registered capital
19 deposits which are not subject to such rapid with-
20 draws as is the case for commercial and industrial
21 accounts in the banks, therefore this question of
22 liquid assets is placed on a different level so
23 that the Federation -- and you will see in the
24 Federation's statistics some information concerning
25 the way in which operations are conducted with
26 respect to liquid assets. We understand liquid
27 assets to mean not only deposits in the bank or
28 liquid cash but we understand it to mean also bond
29 portfolios. We will see -- and we are checking
30 this matter, I will tell you on what page you can



two funds, one term fund and one fund which is on

bank the equivalent of 3 per cent of the savings

based on the first of November previously.

With regard to the funds on which which

refers to the compensation, that is, the bank

cheques and cash order payments, this is a system

accepted by all banks that 5 per cent is the figure

that has been fixed -- 5 per cent on the assets.

COMMISSIONER LEMAN: Now, what is the

policy of the Federation itself?

MR. LAMARCHE: We have very carefully

kept abreast of the discussions that were conducted

before this Commission at the time the credit

unions appeared. We realize that the standards

for liquid assets differ from those in the banking

system. This is due to the fact that since there

are deposit savings accounts and registered capital

deposits which are not subject to such rapid with-

drawals as is the case for commercial and industrial

accounts in the banks, therefore this question of

liquid assets is placed on a different level so

that the Federation -- and you will see in the

Federation's statistics some information concerning

the way in which operations are conducted with

respect to liquid assets. We understand liquid

assets to mean not only deposits in the bank or

liquid cash but we understand it to mean also bond

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1 find this information -- beginning on pages 9 and 10.
2 We have given statistics of the Federation and you
3 will see the variations in the Federation's
4 portfolios.

5 In 1955 this was not a very important
6 factor. We go on to 1956 and point out that in 1956
7 during the March quarter with respect to obligations
8 of the government of Canada there were about -- we
9 can give you statistics here. First, there are
10 12 pages of statistics concerning the affiliated
11 banks. We have the particular bank statistics
12 and thereafter we furnish the statistics concerning
13 the Federation itself.

14 In 1956 during the June quarter there
15 were \$275,000 worth of bonds. If you study the
16 movement in this portfolio you will see that the
17 investments of the Federation were made in order
18 to meet a need for rapid liquidation or to meet
19 certain payments that were required to meet the
20 needs of fluctuations in the deposits and with-
21 drawals.

22 It is a fact that we never had any serious
23 problem with respect to this on the level of the
24 Federation. With respect to individual banks
25 their portfolios are so organized generally speaking
26 that every month there are certain payments to be
27 made on bonds. There is not a single month where
28 certain payments do not have to be made on those
29 bonds.

30 Certain moneys are kept on hand, deposits



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Certain monies are kept on hand, deposits



1 are made in the banks or in other institutions and
2 there are the portfolios which take account, of
3 course, of withdrawals but certain funds are not
4 used in case there are any reductions. We must
5 point out that there is an appreciable proportion
6 of liquid assets arising from refunds of loans
7 that have been granted since in the banks all loans
8 granted with certain exceptions must have monthly
9 refunds, must be repaid on a monthly basis.
10 Therefore, if you consult the statistics of the
11 individual banks you will see, for example, that
12 in 1961 (this is on page 8) \$27 million worth of
13 mortgages and \$3 million worth of personal loans
14 or other types of loans which makes over \$30 million.
15 This gives a rather high proportion. Refunds
16 are generally made on the basis of one-half of
17 one per cent per month plus interest.

18 COMMISSIONER LEMAN: I note that in
19 the statistics you give us that in the Federation
20 itself in recent years -- I am thinking of 1959,
21 1960 and 1961 -- there has been a rather great
22 deal of fluctuation in the overall position. In
23 certain quarters we see that this position has
24 become negative. It amounts to having received
25 a loan from the bank. Now, are there any seasonal
26 factors or any other factors which may influence
27 these fluctuations?

28 MR. LAMARCHE: The Federation which receives
29 deposits from its individual banks and which pays
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interest on these deposits must increase, must
rectify the funds which are deposited. At the
same time its main purpose is to maintain a high
level of liquid assets because of possible withdrawals
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1 It may happen at the beginning of each year we try
2 to adjust the portfolios. We purchase treasury bonds
3 which at the end of the year will disappear almost
4 completely, and there are certain guaranteed deposits
5 placed with trust companies, and there are purchases
6 of other governmental obligations -- or, provincial
7 obligations, with staggered payments.

8 There are certain periods of withdrawals:
9 For example, we know that the period July to November
10 is a period of withdrawal. Most of our groups in
11 Montreal have to pay taxes at this time, and we feel
12 the effects of this withdrawal period, and we have to take
13 appropriate measures in order to have sufficient
14 availabilities because we know there will be withdrawals.

15 COMMISSIONER LEMAN: I hardly see that your
16 statistics confirm what you have just stated. With
17 respect to 1960 and 1961, at the end of March, June
18 and September you had certain deposits in the banks.
19 At the end of September we see that you had a negative
20 position with respect to banks. This is on page 6
21 of the statistics of the federation. The same thing
22 in 1961: You have a rather considerable deposit in
23 the banks, but in December the sum increases to \$315,000;
24 and if we look for your liabilities here we do not see
25 how the deterioration of your position corresponds
26 to the withdrawals made by the banks. At the very moment
27 when you had the least cash available the deposits were
28 at their highest point. Are you following me? I am
29 referring to page 6 and page 7 of the statistics of
30 the federation.

may happen at the beginning of each year we try to adjust the portfolios. We purchase treasury bonds which at the end of the year will disappear almost completely. We also have certain government deposits. There are certain periods of withdrawals: For example, we know that the period July to November is a period of withdrawal. Most of our groups in Montreal have to pay taxes at this time, and we feel the effects of this withdrawal period, and we have to take appropriate measures in order to have sufficient availabilities because we know there will be withdrawals. COMMISSIONER LEMAN: I hardly see that your statistics confirm what you have just stated. With respect to 1960 and 1961, at the end of March, June and September you had certain deposits in the banks. At the end of September we see that you had a negative position with respect to banks. This is on page 6 of the statistics of the federation. The same thing in 1961: You have a rather considerable deposit in the banks, but in December the sum increases to \$375,000 and if we look for your liabilities here we do not see how the deterioration of your position corresponds to the withdrawals made by the banks. At the very moment when you had the least cash available the deposits were at their highest point. Are you following me? I am referring to page 6 and page 7 of the statistics of the federation.



1 MR. LAMARCHE: Well, I think it is difficult
2 to set up a direct relationship between the federation's
3 funds and the funds of the banks and to draw this as
4 an analogy here. You refer to the September quarter,
5 and the figures here do not weaken our assertion. Even
6 if the statistics for a quarter state that at the 30th
7 of the month there is a debit balance, the very next
8 day there could be a very positive balance. The
9 federation will accumulate availabilities to anticipate
10 certain withdrawals and will take measures to make the
11 funds on its deposit as productive as possible.

12 COMMISSIONER LEMAN: But could you state,
13 then, that in your investment policies the withdrawals
14 of the banks which cause these sudden slumps of liquid
15 assets held by the federation -- is it these sudden
16 withdrawals which cause the fluctuations?

17 MR. LAMARCHE: Well, there are certain massive
18 withdrawals occurring at certain times which could not
19 be foreseen. Necessarily, of course, we feel the effects
20 of this and we are forced to sell our liquid assets
21 in order to meet the situation. We have in the bank
22 a certain credit margin which enables us to anticipate
23 situations. If it is simply a matter of two, three
24 or four days there is no need to ask for credit elsewhere,
25 but if we see that the situation will continue, then
26 we have to take immediate measures to re-establish
27 our liquid position.

28 COMMISSIONER LEMAN: You have just stated
29 that you have a credit margin in the banks: What is
30 the relationship between this credit margin and what



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27 COMMISSIONER LEWIS: You have just stated
28 that you have a credit margin in the banks: What is
29 the relationship between this credit margin and what
30



1 you call in your statistics fixed deposit in the
2 banks.

3 MR. LAMARCHE: There is no relationship.

4 COMMISSIONER LEMAN: Well, what is the role
5 of these fixed accounts?

6 MR. LAMARCHE: Well, this is part of a
7 banking agreement.

8 COMMISSIONER LEMAN: Well, every banking
9 agreement must have a purpose. Doesn't this concern
10 the need to honour your payments, or what is its
11 purpose? Don't these fixed accounts play in your
12 favour?

13 MR. LAMARCHE: No, they do not.

14 COMMISSIONER LEMAN: Well, you have not made
15 an arrangement to maintain \$500,000 to \$800,000 in
16 your bank without any purpose in mind. What was your
17 purpose?

18 MR. LAMARCHE: In 1959 the banks gave us
19 a lot of trouble, and after several months of negotiation
20 one bank agreed to solve our problems for us. However,
21 since the banks do not work for nothing one of their
22 conditions was to leave a fixed unproductive deposit
23 in this bank, and this is the amount you see before
24 you. Does this answer your question, sir?

25 COMMISSIONER LEMAN: Well, what was this
26 condition -- simply to maintain credit?

27 MR. LAMARCHE: No, it does not depend on the
28 credit margin, sir.

29 COMMISSIONER BROWN: What was this problem
30 with the banks? I notice you had deposits, except



You call in 50

banks.

MR. LAMARCHE: There is no relationship.

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COMMISSIONER BROWN: What was this problem

with the banks? I notice you had deposits, except



1 for one-quarter, all through 1959. What was the
2 problem with the bank?

3 MR. LAMARCHE: Well, the problem was the
4 payment orders on the banks were circulating through-
5 out the banking circuit and the banks told us then,
6 "You are benefitting from the banking circuit and
7 not paying anything for it." This is not exactly
8 true, because we had to pay for the exchange charges
9 on bank cheques that had been cashed, and there was
10 of course a certain reciprocity because the banks
11 paid us the exchange, of course, on payment orders
12 that had also been cashed. This fixed deposit was
13 to represent, or partially represent, the costs that
14 were charged to us for circulating payment orders
15 throughout the banks. We had to pay for providing
16 paper monies outside of these factors.

17 COMMISSIONER BROWN: In other words, this
18 is for participating in the clearing systems of the banks.
19 I notice in March, 1961 this fixed deposit was \$672,000,
20 and in June, September and December it was \$657,000.
21 Is it a fixed sum, or is it related to your turnover?
22 What is the basis of this fixed deposit. That is the
23 first question.

24 My second question is, if this is a fixed
25 deposit, and it appears to vary -- when you had an
26 overdraft at the end of September, was this a real
27 overdraft or was this covered by cheques in clearing,
28 and if it was an overdraft do you have to pay interest
29 on it? In other words, does your fixed deposit cover
30 your overdraft, or is it something that is fixed, and



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COMMISSIONER BROWN: In other words, this

is for participating in the clearing system of the banks

I notice in March, 1961 this fixed deposit was \$625,000,

and in June, September and December it was \$657,000.

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and if it was an overdraft do you have to pay interest

on it? In other words, does your fixed deposit cover

your overdraft, or is it something that is fixed, and



1 if you overdraw on your other account you have to pay
2 overdraft charges?

3 MR. LAMARCHE: In answer to the first question,
4 I will say it is a fixed deposit. We were drawn into it
5 by the hands, so to speak. However, we succeeded in
6 obtaining that the fixed deposit should be reduced
7 to \$650,000, but we do pay interest on temporary loans
8 that we make to the banks, and we have to transport
9 to the banks the obligations of the Government of
10 Canada in order to guarantee the loans that we make
11 to the banks.

12 COMMISSIONER BROWN: This fixed deposit seems
13 to go up in 1960 from \$701,000 to \$772,000. It must
14 be related to something if it goes up and then down.
15 What is the basis of these variations?

16 MR. LAMARCHE: Well, this corresponds to the
17 increase in the operations, in the transactions that
18 have occurred.

19 COMMISSIONER BROWN: Thank you.

20 --- Short recess.

21 COMMISSIONER LEMAN: Mr. Lamarche, to
22 continue our discussion, I should like to ask you
23 whether you could describe the loan policy of your
24 banks. Can the banks borrow from the federation, and
25 do they at times, or do they not?

26 MR. LAMARCHE: Well, the banks may borrow
27 from the federation provided they furnish certain
28 guarantees for these loans. Several banks also have
29 agreements with the branches of local banks in order
30 to obtain loans when they need them, and in actual fact



Printed Order

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FINANCIAL STATEMENT

MR. LAMARCHE: In answer to the first question

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1 it happens rather rarely that our banks are obliged
2 to borrow either from other banks or from the
3 federation. Our principle which has been established
4 at the very outset of the founding the bank is that
5 we say to each of these banks, "Despite the fact
6 that you are affiliated with the federation and that
7 the federation is available to you to meet your needs,
8 you yourself must be so organized as to act independently."
9 As a result it is only very rarely that our member banks
10 are obliged to borrow either from banks or from the
11 federation itself.

12 COMMISSIONER LEMAN: In studying the statistics
13 of the federation that you have submitted we do not see
14 any item giving the loans to the banks. Could this
15 be contained indirectly in the figures under another
16 item? Are the deposits of the banks with the federation --
17 does this item reflect this?

18 MR. LAMARCHE: Well, we have two forms of
19 loans which can be granted to the banks. The first
20 form is under compensation accounts which is entered
21 as debit and which is deducted in accordance with
22 the prevailing needs. This debit generally lasts
23 only for a few days. There is a second type which
24 you will find on page 5 and page 6 and thereafter.
25 If you will look under No. 46(a), "Rediscounted
26 Mortgages," we ask certain of our banks to rediscount
27 one or more mortgages for their needs. You will see
28 in 1959, for example, we have \$10,405 for the June
29 quarter. This is on page 5, the statistics of the
30 federation. This is under Loans. At the end of the



Federal Reserve Bank of New York

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in 1959, for example, we have \$10,405 for the June
quarter. This is on page 5, the statistics of the
Federation. This is under Loans. At the end of the



1 year, December, 1959, we have an amount of \$67,395,
2 and if you go down to the end you will see that these
3 sums are not very important when considered as a whole.

4 COMMISSIONER LEMAN: Well, if you refer now
5 to the statistics at the banks themselves, as you
6 have just said, sir, you do not encourage the banks
7 to ask for loans. You encourage them to act independently
8 without resorting to loans, but if you look at the
9 statistics for 1961, the figures that you give here
10 seem to confirm that the banks indeed do not ask for
11 loans. The figure given here, the corresponding
12 figure, is rather minimum with respect to over-all
13 activity, but these are end of the year statistics.
14 Do you have anything more specific?

15 MR. LAMARCHE: Well, these are the statistics
16 we are wanting to give concerning the banks. We are
17 doing them at the end of the calendar year, as of the
18 31st of December for each year.



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MR. LAMARCHE: Well, these are the statistics
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doing them at the end of the calendar year, as of the
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1 We do not have a single bank which ends its fiscal
2 year at December 31. The fiscal year endings are
3 scattered throughout January, February, May, September
4 and October, depending on the particular Caisse.
5 Therefore for the need for statistics we have to work
6 through by evaluating the ends of the fiscal years.
7 It is only the exception that banks must resort to
8 borrowing from the federation. It is a bad principle
9 to borrow in order to lend. You cannot borrow using
10 funds which are not available to you.

11 COMMISSIONER LEMAN: The federation follows
12 the same policy, that is to borrow as little as
13 possible and to use the availabilities as much as
14 possible?

15 MR. LAMARCHE: Yes, this is true with one
16 exception. There is a certain difference involved.
17 As I explained to you a few minutes ago, during the
18 first part of our discussion, the banks have certain
19 payment obligations to meet every month. We receive
20 amounts up to \$500,000 in payment on obligations so
21 our federation immediately tries to purchase treasury
22 bonds in order to obtain something for this money,
23 even if they are at very small rates of interest.
24 The banks may utilize the sums that they have just
25 acquired according to their needs. This happens more
26 often in the federation; that is, the bank account
27 will be in the red but only for a period of three or
28 four days, hardly longer. This, as I say, occurs
29 more frequently to the federation because as
30 the recovered money has not been appropriated for



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exception. There is a certain difference involved.
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first part of our discussion, the banks have certain
payment obligations to meet every month. We receive
amounts up to \$200,000 in payment on obligations so
our federation immediately tries to purchase treasury
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1 the banks themselves with respect to the members in
2 the form of mortgage loans, or in the form of bonds
3 purchased, in order to maintain the rotation of the
4 particular holdings of the particular portfolio.
5 The sum may indeed vary. It might happen that we have
6 a deposit although it does not appear in the statistics.
7 We may have a deposit in a current account to the
8 amount of \$2 million. Of course, we do not want to
9 leave that \$2 million unproductive. We want to invest
10 it somewhere.

11 COMMISSIONER LEMAN: Have you thought of
12 making short-term loans and entering the money market,
13 making loans of 90 days or for other short periods of
14 time?

15 MR. LAMARCHE: Well, this has often been
16 suggested to us but we have never seen the need to
17 resort to such a procedure.

18 COMMISSIONER LEMAN: Does this mean that
19 bank loans are rather regular?

20 MR. LAMARCHE: No, we do not have any need
21 for that. This is not such an important element for us.
22 It does not encourage us or motivate us to obtain
23 finances this way.

24 COMMISSIONER LEMAN: Mr. Lamarche, with
25 respect to assets you have given us some rather
26 interesting statistics concerning payments on
27 government obligations and on the maturity of government
28 obligations, but you have given us no figures concerning
29 the averages with respect to other obligations in
30 connection with the Canadian Government. Can you tell



the banks themselves with respect to the members in the form of mortgage loans, or in the form of bonds purchased, in order to maintain the rotation of the particular holdings of the particular portfolio.

The sum may indeed vary. It might happen that we have a deposit although it does not appear in the statistics. We may have a deposit in a current account to the amount of \$2 million. Of course, we do not want to leave that \$2 million unproductive. We want to invest it somewhere.

COMMISSIONER LEWIS: Have you thought of making short-term loans and entering the money market, making loans of 90 days or for other short periods of

MR. LAMARCHE: Well, this has often been suggested to us but we have never seen the need to resort to such a procedure.

COMMISSIONER LEWIS: Does this mean that

MR. LAMARCHE: No, we do not have any need for that. This is not such an important element for us. It does not encourage us or motivate us to obtain finances this way.

COMMISSIONER LEWIS: Mr. Laramche, with

respect to assets you have given us some rather interesting statistics concerning payments or government obligations and on the maturity of government obligations, but you have given us no figures concerning the averages with respect to other obligations in

connection with the Canadian Government. Can you tell



1 us something of the nature of these investments?
2 Are they long or short-term investments? What kind
3 are they?

4 MR. LAMARCHE: Our attention was drawn to
5 that fact which you mention, sir, that there is no
6 maturity given to securities other than those of the
7 Federal Government. The reason for this^{is}/quite simple,
8 namely, the suggestions contained in the brief do no
9 make mention of this point. However, the general
10 investment policy is that each of our banks, as the
11 federation itself, must invest in obligations staggered
12 over a period of from one to five years, or one to
13 ten years. Now, with respect to the federation, most
14 of our portfolio comes to maturity before five years.
15 Of course, we have maturities up to 1971, but this
16 represents a rather small proportion of our investments.

17 COMMISSIONER LEMAN: These short-term loans
18 do not apply to municipal or school obligations?

19 MR. LAMARCHE: Yes, they do, however, we
20 do encourage the banks to purchase obligations that
21 go directly to 10 years or even more. I refer to
22 Government of Canada bonds because we consider such
23 securities to be first class.

24 COMMISSIONER LEMAN: Since you have given a
25 great deal of attention to the staggering of the
26 maturities in your portfolio, does this mean that you
27 do very little purchasing and selling before maturity?

28 MR. LAMARCHE: Our banks are not security
29 brokers except in certain exceptional cases. The
30 maturity dates are met and the securities are kept

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1 in the portfolio until they reach maturity. That is
2 our general rule.

3 COMMISSIONER LEMAN: When you do carry out
4 such operations do you apply to a real estate dealer?

5 MR. LAMARCHE: Yes.

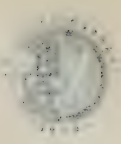
6 COMMISSIONER LEMAN: Do you have any particular
7 arrangement with certain real estate agents or do you
8 just proceed directly with your purchases and sales?

9 MR. LAMARCHE: No, we have no particular
10 arrangement with any broker. Our banks are free to
11 approach the broker of their choice. We are not
12 interested in a particular broker, it is the security
13 that counts.

14 COMMISSIONER LEMAN: Have you any additional
15 views to state in respect to the general market for
16 funds? Have you any difficulties you wish to mention?

17 MR. LAMARCHE: That is a very good question
18 and I am glad to reply to it because it raises the
19 opportunity to stress another factor which is very
20 important in the light of our banks.

21 The market in bonds for school municipal
22 commissions and the municipalities of our province
23 has not been very prosperous at all times and we
24 consider that due to the fact that we must maintain
25 a certain amount of money available for withdrawals
26 by our members, and since the law allows us to buy
27 municipal and school commission bonds, this has fulfilled
28 another need in the market in the Province of Quebec
29 because in general the brokers who do not know the
30 function of our small town and village commission were



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1 not very much in favour of a transaction and issue
2 of bonds to build a school or develop municipal
3 facilities in the parishes except in the case of
4 large towns which are well quoted on the market.
5 As a result the gradual increase in size means that
6 we were directed toward municipal and school
7 commission bonds. This allowed these municipalities
8 to develop more rapidly than they otherwise would have
9 done. That also corresponds to another characteristic
10 of the organization of our banks, and this has been
11 possible because there are banks -- we have banks
12 all through the province and we know the different
13 environments while the financial world does not
14 necessarily know this.

15 COMMISSIONER BROWN: I gather that while
16 your operations are confined to the dioceses of
17 Montreal or to the provincial diocese of Montreal you
18 buy municipal securities throughout the province?
19 What are the categories? What are the autres
20 corporations canadiennes that appear at page 6 in
21 your statistics at line 27?

22 MR. LAMARCHE: I cannot tell you offhand
23 details of the overall figures. We have given you
24 24 pages of statistics and that is quite a lot, you
25 know. If my memory serves me right I think this
26 refers to fixed deposits in trusts that are actually
27 deposited for periods of a fortnight or perhaps
28 three to six months. At least to a large extent that
29 is the case. I am quite sure that these are not loans
30 to companies, to businesses or to industries. We do



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1 not have the right to make loans of that kind and we
2 do not make loans of that kind.

3 COMMISSIONER BROWN: With whom would these
4 deposits be made?

5 MR. LAMARCHE: With trust companies in Canada.

6 COMMISSIONER BROWN: Trust companies.

7 COMMISSIONER GIBSON: Before you leave this
8 subject of securities I noted that in answering Mr.
9 Brown you said that you had the right to buy municipal
10 securities over a much wider area than the area in
11 which you operate. These municipal securities involve
12 a large sum of money a represent a large item in your
13 statement. Are most of these securities held in your
14 own area as a matter of practice, or in municipal
15 areas in your own area and school district?

16 MR. LAMARCHE: The tendency is to encourage
17 the group purchase of municipal bonds in the area
18 surrounding Montreal because we live here and we know
19 this sector better than the other parts of the province.

20 COMMISSIONER GIBSON: This is one of your
21 prime functions, to assist municipal governments in
22 that area. You do regard this as an important
23 function of the Caisses, do you?

24 MR. LAMARCHE: No, I do not think that
25 we can say that this is a main function of the Caisses.
26 The main function of the Caisses is to create benefit
27 for the members and shareholders of the Caisses.
28 As I said, for the reasons of safety we cannot lend
29 out 100 per cent of their deposits received so that
30 surpluses that we cannot lend is put into this kind of



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1 bond.

2 COMMISSIONER GIBSON: This is a matter that
3 you regard as a significant service you perform in
4 your community, is that correct? Do you usually
5 buy these securities when they are issued or do you
6 sometimes buy them on the market, and I refer to
7 municipal securities?

8 MR. LAMARCHE: No, we buy them always on
9 the market and we do not really take into account the
10 time of issue because it all depends on what the brokers
11 can offer us; what paper they can offer us and the
12 time of maturity as well as the amount of dividend,
13 and so on. Sometimes a Caisse will buy a certain
14 slice of a new issue just as a Caisse may buy a certain
15 amount of an issue that came out perhaps two, three or
16 four years before.

17 COMMISSIONER GIBSON: Now, are these municipal
18 security holdings of the Caisses as opposed to the
19 federation mostly short-term? You said when you were
20 talking about federation holdings that a large portion
21 were one to five year holdings and perhaps some a little
22 longer, but are these the same or do they tend to be
23 a little longer term?

24 MR. LAMARCHE: In our Caisse Populaire the
25 time of maturity varies somewhat. The parochial
26 Caisse is not in the same situation as the central
27 organization and it does happen that the maturity is
28 further away. That is not from one to ten years but
29 for a period slightly longer. In view of the fact that
30 the maturity, if it is 10 years, will come to five, six

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1 and a half or six and three-quarters per cent, the
2 Caisse will take advantage and buy bonds at that time
3 which will pay better interest.

4 COMMISSIONER LEMAN: Mr. Lamarche, I should
5 like to ask you one or two questions in respect to the
6 mortgages offered by the Caisses. On pages 8 and 9
7 I notice that the normal renewal of your mortgages
8 varies from three to five years. I think the basis
9 of repayment is worked out over a period of 10 to 15
10 years. I think we would all agree that a mortgage
11 of three to five years is rather short. Perhaps that
12 is why the amortization is calculated over 10 to 15
13 years. What happens in practice in that regard? Is
14 there almost an automatic renewal of the mortgages?

15 MR. LAMARCHE: In general the renewals are
16 made after having been re-examined by the loan committee,
17 and they are then renewed or not. If the borrower
18 fulfills his payment satisfactorily then it is renewed.
19 If he does not fulfill his undertakings to the
20 satisfaction of the loan committee then the borrower
21 is requested to pay the loan off when it has expired.

22 COMMISSIONER LEMAN: I suppose that your
23 experience has been rather favourable with regard to
24 mortgage loans. What happens in practice then is that
25 the mortgage loan is generally renewed because the
26 initial time is rather short to be of service to the
27 borrower?

28 MR. LAMARCHE: You are quite right. In general
29 these mortgages loans are renewed.

30 COMMISSIONER LEMAN: In regard to mortgages



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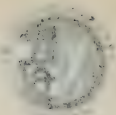


1 is there a specific kind of building that you prefer
2 to grant mortgages on or is there a very wide field
3 with regard to the buildings covered?

4 MR. LAMARCHE: The Caisse Populaire only
5 make loans for family dwellings and do not give
6 mortgages for commercial or industrial buildings.
7 There are only a few cases where we might say that there
8 is a building of mixed character. For instance, there
9 may be a shop or store on the ground floor with a dwelling
10 above. Under those circumstances the Caisse might
11 agree to give a mortgage loan.

12 COMMISSIONER LEMAN: Do you have any policy
13 with regard to the percentage of the market value of
14 the building?

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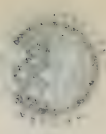
1 MR. LAMARCHE: The policy followed by the
2 Caisses is to allow between 50 and 75 per cent
3 of the value of the property.

4 COMMISSIONER LEMAN: Do you establish these
5 values yourself or do you consult a real estate
6 agent?

7 MR. LAMARCHE: The credit committee
8 people are trained in this. There is a credit
9 committee member who has been an estimator, for
10 instance, for a company that dealt with buildings
11 or in other cases he has been a builder or a
12 carpenter and certain standards are worked out
13 in advance and the borrower has to fill in a form
14 of application with questions on the municipal
15 tax evaluation, the price paid, whether there are
16 rents and what their amount is and after having
17 received all this information the credit committee
18 board go and visit the property to decide what its
19 value is taking into account the different factors
20 which have been submitted for consideration.

21 COMMISSIONER BROWN: I understand you to
22 say that between 50 and 75 per cent of the value
23 of the property. My reading of the act says not
24 exceeding three-fifths of the municipal evaluation
25 of the real estate affected. Is there a difference
26 or has this been changed? Can you explain this?

27 MR. LAMARCHE: Here is the article of the
28 law to which you are referring, but it does not
29 refer to mortgage loans granted by members of our
30 loan committee. It comes under the category of



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2 and these investments come under the management
3 of the Caisses. If the Caisse for one reason
4 or another is going to do business outside the
5 territory over which it has jurisdiction, for
6 instance, buy federal or provincial bonds or
7 something which is outside its juridical area,
8 then it is considered as an investment and then
9 the board cannot lend more than three-fifths of
10 the municipal evaluation of the property. This
11 is more severe than the standards of the loans
12 committee.

13 COMMISSIONER BROWN: On the statistics
14 you supply you just lump all mortgage loans together.
15 Have you any idea how much of this would be of the
16 first category, in other words, loans on mortgages
17 to members and how much would be in the second
18 category that you mentioned of investment which
19 are mortgage loans on the basis of this section
20 of the act?

21 MR. LAMARCHE: We have not submitted
22 distinct statistics on that subject because this
23 article of the law is practically not applied.
24 It comes under the category of exceptions. What
25 we call mortgages are to a large extent mortgages
26 agreed within the limits of the members by the
27 members of the loan committee.

28 COMMISSIONER BROWN: Thank you.

29 COMMISSIONER LEMAN: Has there been any
30 question, Mr. Lamarche, of obtaining permission to



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COMMISSIONER LEMAY: Has there been any

question, Mr. Laramche, of obtaining permission to



1 grant loans on mortgages in virtue of the federal
2 law on guaranteed mortgages that will be guaranteed
3 by a central body?

4 MR. LAMARCHE: This question has not come
5 up because we felt no need to deal with it because
6 other sectors of the economy have satisfied the
7 needs of this legislation or the needs this legislation
8 was intended to cover. In our Caisses Populaires
9 with the standards and the methods of functioning
10 that we have we cannot respond to regular demands
11 or requests from our members as it is so that we
12 do not want to embark on a field of operation which,
13 though not being very different, nevertheless is
14 somewhat outside our existing scope and has been
15 so for many years.

16 COMMISSIONER GIBSON: Is there no demand
17 amongst your membership for longer term mortgage
18 loans following along Mr. Leman's question? I
19 am thinking of the Central Mortgage and Housing
20 Corporation which are for very long terms. Yours
21 run three to five years and as a matter of practice
22 are they requested frequently?

23 MR. LAMARCHE: We do not as a general rule
24 receive requests for mortgage loans from persons
25 who could apply to the Central Mortgage Organization.
26 There is a law covering that and it satisfies the
27 needs. The sector for us in the Caisses Populaires
28 is to cover the part that is not covered elsewhere
29 so that if this Central Mortgage and Housing Corporation
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does not give the mortgage we can under normal conditions



1 provide the mortgage loan.

2 COMMISSIONER GIBSON: How would your rates
3 compare with the Central Mortgage and Housing
4 Corporation rates on mortgages -- interest rates?

5 MR. LAMARCHE: On the surface they seem
6 slightly higher because, as I said, our rates are
7 about 7 per cent or $7\frac{1}{4}$ per cent or $7\frac{1}{2}$ per cent on
8 mortgage loans taking into account, of course,
9 the life assurance included. But with the
10 dividends that are given to the borrowers I think
11 the comparison gives almost similar results.

12 COMMISSIONER GIBSON: Is there a tendency
13 among the caisses to increase your mortgage
14 activities in relation to other activities over
15 the years; in other words, did you used to do a
16 bigger personal lending business relative to the
17 total than you are doing now and a smaller mortgage
18 business? You see, you have ten years here only
19 which is a fairly short period in your history. Let
20 me elaborate a little on my question. We have
21 heard from a lot of credit unions and the emphasis
22 there is almost uniformly on personal loans, not
23 on mortgages. Was there a day in your history
24 when you put more emphasis on personal loans and
25 less on mortgages and has this mortgage business
26 been part of the evolution of your development?

27 MR. LAMARCHE: The main part of our loans,
28 as you will see from the figures on page 8, are
29 mortgages. The personal loans which we call loans
30 to the members is much smaller in proportion. How-



1 ever, we cannot deny that there is a tendency to
2 develop further personal loans and this is due
3 to the existence or, I might say, rather because
4 of the interest rates that are charged by the
5 finance companies. The caisse gives this service
6 to its members and we try to respond to the needs
7 of the members where they cannot obtain at
8 reasonable rates the loans that they need.

9 COMMISSIONER GIBSON: It has not been
10 your custom, though, to encourage personal loans?
11 From the way you put it I gathered you say you
12 are responding to a demand, a need, but your
13 tradition has been to make mortgage loans rather
14 than personal loans, is that correct?

15 MR. LAMARCHE: There has always been a
16 need for mortgage loans and the need has been
17 smaller in the case of personal loans. One of
18 the principles of cooperation is that we must
19 encourage the small loan rather than the large
20 loan, but when a shareholder wants to buy a property
21 so that he can become the owner and have a place
22 of his own he is not going to ask for \$100,000;
23 it is about \$5,000 or \$3,000 or \$6,000 or \$10,000.
24 But for personal loans we can help a larger number
25 of shareholders with less money.

26 COMMISSIONER LEMAN: When you speak of
27 personal loans you speak of four categories on page
28 9 of your brief. Can you tell us if the distribution
29 of these loans among these four classes is fairly
30 equal or if one or two of these categories is much



develop further personal loans and this is due
to the existence of, I might say, rather because
of the interest rates that are charged by the
finance companies. The cause gives this service
to the members and we try to respond to the needs
of the members where they cannot obtain at
reasonable rates the loans that they need.

COMMISSIONER GIBSON: It has not been

your custom, though, to encourage personal loans?
From the way you put it I gathered you say you
are responding to a demand, a need, but your
tradition has been to make mortgage loans rather
than personal loans, is that correct?

MRS. LAMARCHE: There has always been a

need for mortgage loans and the need has been
smaller in the case of personal loans. One of
the principles of cooperation is that we must
encourage the small loan rather than the large
loan, but when a shareholder wants to buy a property
so that he can become the owner and have a place
of his own he is not going to ask for \$100,000;
it is about \$2,000 or \$3,000 or \$6,000 or \$10,000.
But for personal loans we can help a larger number
of shareholders with less money.

COMMISSIONER LEWIS: When you speak of

of your credit. Can you tell us if the distribution
of these loans among these four classes is fairly
equal or if one or two of these categories is much



1 larger than the others?

2 MR. LAMARCHE: The largest category,
3 I am speaking from memory and not from the statistics
4 which is much, much higher than the other categories
5 is the first, that is, a simple loan on recognition
6 of debt with or without endorsement.

7 COMMISSIONER LEMAN: You have spoken
8 of loans with arrangements made to sever. Is
9 this a question of principle?

10 MR. LAMARCHE: We are interested in
11 making business with persons on the social,
12 parochial basis. We are not interested in acting
13 as agents of companies or firms or commercial
14 undertakings because they have their own organizations
15 and institutions which can take care of them.

16 COMMISSIONER LEMAN: You must have noted
17 that in general the aim of these loans, that is,
18 when people come to ask for a loan it is only for
19 a few hundred dollars but what would you say was
20 the main object of their asking for the loan?

21 MR. LAMARCHE: We have never conducted
22 any particular study on the different reasons
23 or the different objectives of those who seek a
24 loan. The only thing that we can say is that
25 there are a multitude of reasons for which a
26 person may come to ask for a loan. It may be
27 to pay his taxes of one kind or another, it
28 may be to buy a television set, or buy furniture,
29 or it may be for consolidation of debts or other
30 reasons of that kind. He may want to buy a car

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1 or he may want a loan so that the father of the
2 family can take a holiday and come back to work
3 relaxed and fresh. We have never conducted any
4 particular investigation of these reasons so
5 we have no detailed report.

6 COMMISSIONER LEMAN: Unless other members
7 of the Commission have questions on that field
8 I should like to go on to another subject which
9 is the tendency with regard to what we would call
10 in good French "turnover" or the tendency to
11 increase. You said from 1960 to 1961 there was
12 a relationship between the withdrawals and deposits
13 at that date. The figures you give us show that
14 it becomes three times instead of two. Now,
15 what does that depend on? Can you tell us
16 what this acceleration was due to?

17 MR. LAMARCHE: What page are you referring
18 to?

19 COMMISSIONER LEMAN: On page 10 you give
20 the withdrawals from savings for each year and if
21 we compare these with the balances given for the
22 same date you see that there is a certain
23 acceleration of withdrawals as compared with the
24 average liquid holdings on deposit. If you look
25 at the figures for 1961 which represent \$126,600,000
26 and if you compare this figure with deposits of
27 some \$47 million at the end of 1961 or if you take
28 the average of the deposits at the end of 1961
29 and if you divide this by two you will note you have
30



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1 now three times as much. There seems to be a certain
2 acceleration of withdrawals as compared with deposits
3 in the bank.

4 MR. LAMARCHE: I must say that I am not
5 able to answer this question. We have not made
6 any studies of the matter. You have made an
7 observation, sir, but we are not in a position to
8 answer your question.

9 COMMISSIONER LEMAN: In other words you
10 have not observed this phenomenon in connection
11 with your bank operations. You yourself have
12 not noted any acceleration of withdrawals over
13 the amount of cash on hand and you do not attach
14 any particular importance to it?

15 MR. LAMARCHE: Well, for the time being,
16 sir, we have no comments on the matter.

17 COMMISSIONER LEMAN: Mr. Brown has a
18 question on another point. I should like to
19 have your general observations on the factors
20 that have influenced the great development of
21 these caisses in this province. We would like
22 to have your opinion on this point.

23 MR. LAMARCHE: Well, these are our
24 remarks on this point. Banks in general believe
25 that the phenomenal development of these caisses
26 is due to unfair competition in the form of
27 interest paid on deposits, this interest being
28 higher than that paid in the banks. As a result
29 of this situation that has been sufficient incentive
30 to draw in a great deal of money.



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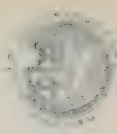
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1 Now, experience has shown that interest
2 rates do not play an important role in the favour
3 shown by the public to Caisses, this type of caisse.
4 In fact, it is only a secondary and even a
5 negligible factor. An example will show the
6 truth of this assertion.

7 In 1959 the banks insisted that the
8 Caisses set up service charges which would observe
9 the rules prevailing concerning clearance of cheques.
10 The statistics given on page 4 for the Caisses
11 in the first part of our brief give the results
12 of this requirement which has been imposed by the
13 banks. The arguments of the banks were that no
14 service charges or administrative charges were
15 made and that the depositors were not charged for
16 cashing cheques which constituted unfair competition
17 and attracted people to the Caisses. However,
18 in 1955 service charges brought in some \$9,600.
19 Later, they brought in \$34,600. In 1955 they
20 brought in \$100,000. In 1960 they brought in
21 \$26,000. Despite this additional charge the
22 Caisses have not ceased to develop. On the
23 contrary this same situation prevails with respect
24 to interest paid on deposits. These factors alone
25 are not the principal reason for the development
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1 These factors may contribute to a certain extent,
2 but to a negligible extent.

3 Another more important factor which coincides
4 with the over-all development of the country is in the
5 construction of buildings to house these Caisses.
6 Over a period of 40 to 50 years, thanks to many
7 sacrifices, the administrators of Caisse have been able
8 to set up reserve funds which improves their situation
9 with respect to security of the monies that have been
10 entrusted to them and to the loans they grant. In
11 the same way this has enabled our Caisse to build
12 adequate facilities to house our operations. Up to
13 that time we had to use church buildings or other
14 types of structures that were available at moderate
15 rates, thanks to the assistance of the clergy and to
16 other persons who were convinced of the need for this
17 type of activity. However, the proprietors and the
18 land owners were mistrustful and they were rather
19 cautious because they saw this sign of success on our
20 part. Another factor was the multiplication of parish
21 Caisses which enabled a greater circulation of the
22 principle of co-operation which brought in a greater
23 number of people. This multiplication made this
24 activity very popular because it reached into all the
25 corners of the province.

26 But above all, the fundamental reason is
27 the fact that the savings and credit co-operative makes
28 it possible for the poorest persons to have a share in
29 property and gives them equal footing with more
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General Ontario

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1 can become director or he can become a loan committee member
2 or a member of the supervisory committee. He has voting
3 rights. He has the same rights as any other member.
4 He has the right to request any information whatsoever
5 as to the use of the money that is being deposited in
6 the Caisse etc.

7 Still more important is the fact that the
8 grouping of the savings of all the individuals enables
9 them to attain a certain economic and social
10 emancipation especially for those who participate in
11 the co-operative movement. In fact, if we consider
12 that the French Canadian population is a minority
13 with respect to all of Canada, and on the other hand
14 mindful of the futility of any efforts that are not
15 supported by the power of money, the French Canadian
16 population in Quebec has, with modest means at its
17 disposal, succeeded in grouping its savings in order
18 to attain the present success of these Caisses
19 Populaires.

20 We should stress the fact it is thanks to
21 the encouragement and the effective support of the
22 clergy that it was possible to attain the success.
23 Without this unflagging co-operation the Caisses
24 Populaires would not have survived the various
25 difficulties that arose.

26 Another important factor is the factor which
27 enabled all those who were connected with this movement
28 to acquaint themselves with administrative matters
29 which constitutes a certain enrichment in their
30 own life -- in the management of their own affairs.



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1 You may think perhaps we are overlooking two
2 important elements: The issuing of payment orders
3 and the absence of taxation. The facts show that
4 the development of these Caisses took place after
5 1945. Now, payment orders were circulating since
6 1939 and even before then. As to the absence of
7 taxation, this has enabled the Caisse to set up
8 the necessary reserve, a reserve which is required
9 by any institution which holds deposits and which
10 grants loans.

11 As you can see for yourselves, all these
12 factors explain the great development of these great
13 Caisses. We haven't gone into all the factors involved,
14 but we have stressed those factors which we consider
15 to be the most important, namely, to give to money
16 its true role, namely, that of an instrument placed
17 at the service of a community of man, and to confer
18 upon each individual his dignity and his own pride,
19 since it is the individual who is called upon to
20 administer this enterprise for the benefit of the
21 community and of the individual. This is the role
22 of the Caisse Populaire.

23 COMMISSIONER LEMAN: I didn't realize I
24 was raising such an important question when I made my
25 remark, because this enabled you to make a rather
26 complete statement of your views on the matter. You
27 will note that I drew your attention to the statistics
28 given on page 4, when I mentioned the income aspect
29 of the activity of the Caisse, but we didn't give any
30 attention to the expenditure side of the matter.



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As you can see for yourselves, all these factors explain the great development of these great Calases. We haven't gone into all the factors involved but we have assessed these factors which we consider to be the most important, namely, to give to money its true role, namely, that of an instrument placed at the service of a community of men, and to confer upon each individual his dignity and his own price since it is the individual who is called upon to administer this enterprise for the benefit of the community and of the individual. This is the role of the Calase Populaire.

COMMISSIONER LAMIN: I didn't realize I was raising such an important question when I made my remark, because this enabled you to make a rather complete statement of your views on the matter. You will note that I drew your attention to the statement given on page 4, when I mentioned the income aspect of the activity of the Calase, but we didn't give any of the matter.



1 Perhaps my slide rule is misleading me, but I notice
2 from 1955 to 1960 the interest percentage on savings
3 has increased.

4 MR. LAMARCHE: We don't deny it.

5 COMMISSIONER LEMAN: However, we should not
6 completely overlook the monetary benefits obtained by
7 the members.

8 MR. LAMARCHE: No sir, we are not overlooking
9 this. We have included it as part of the conditions
10 necessary for progress. However, our experience has
11 proven that it is not interest rates which are an
12 important factor in this matter.

13 COMMISSIONER LEMAN: Well, I have only one
14 more question, sir. This matter concerns the interests
15 of the Commission both with respect to co-operatives
16 as well as with respect to commercial enterprises,
17 namely, the manner in which the different groups
18 react to the monetary policy of the country. What is
19 important for us is to know how the mechanism operates.
20 Could you tell us in your own words how your group
21 reacts to the various monetary fluctuations with
22 respect to different periods of time?

23 MR. LAMARCHE: Well, if you consider all
24 the money in circulation in the country, for us who
25 represent an organization of \$58 million, it is not
26 for us to set forth our views concerning the over-all
27 economic policy followed by the country, but all we
28 can say is that when the banks are affected by a policy
29 followed by the country we also experience certain
30 incidents, certain repercussions to a varying extent.

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1 This is all we can say with respect to this question
2 of the general economic policy of the country. This
3 is all we can say in view of the role that has been
4 assigned to us and the limited time available to us.

5 COMMISSIONER LEMAN: Well, I should like to
6 ascertain whether the influence you feel of this policy --
7 is this in relation to the policies that you have to
8 follow with respect to the banks, or are you sensitive
9 to fluctuations in interest rates in the money market?
10 In other words, does a change in interest rate affect
11 the volume of your business? That is the question I
12 want to ask.

13 MR. LAMARCHE: No sir, it does not affect
14 the actual volume of our business. Whether or not
15 interest rates increase or decrease does not affect
16 our position with respect to our members nor with
17 respect to those who borrow from us.

18 COMMISSIONER LEMAN: Well, let us try to
19 determine what the situation was in 1958, for example:
20 If you refer to your statistics we see there is a
21 certain pressure felt by the Caisse and by the
22 federation at a time when there was a certain restriction
23 in the money market. At that time there was a slight
24 increase in the loans made by the Caisse from the
25 banks. Didn't this cause people to come to you to
26 a greater extent than otherwise?

27 MR. LAMARCHE: If you are trying to establish
28 a causal relationship between the situation in 1957
29 and 1958, I don't believe such a situation did exist.
30 Generally bank loans are granted to industry and



of the general economic policy of the country. This is all we can say in view of the role that has been assigned to us and the limited time available to us.

COMMISSIONER LEHMAN: Well, I should like to ascertain whether the influence you feel of this policy is this in relation to the policies that you have to follow with respect to the banks, or are you sensitive to fluctuations in interest rates in the money market? In other words, does a change in interest rate affect the volume of your business? That is the question I want to ask.

MR. LAMARCHE: No sir, it does not affect the actual volume of our business. Whether or not interest rates increase or decrease does not affect our position with respect to our members nor with respect to those who borrow from us.

COMMISSIONER LEHMAN: Well, let me try to determine what the situation was in 1958, for example: If you refer to your statistics we see there is a certain pressure felt by the Calase and by the Federation at a time when there was a certain restriction in the money market. At that time there was a slight increase in the loans made by the Calase from the banks. Didn't this cause people to come to you to a greater extent than otherwise?

MR. LAMARCHE: If you are trying to establish a causal relationship between the situation in 1957 and 1958, I don't believe such a situation exists. Generally bank loans are granted to industry and



1 commercial enterprises. As for us, we don't lend to
2 commercial or industrial or financial groups. We lend
3 only to our members. We make only personal loans,
4 and in our Caisses since 1945 we have always had
5 waiting lists for people who desired to obtain credit.
6 the
7 I don't think/situation affected our Caisse Populaire
8 during the period that you refer to.

9 COMMISSIONER GIBSON: Are you affected in
10 your policies by changes in the level of security
11 prices? In other words, when the bond market goes
12 down and the market value of your security holdings
13 is less than the book value, does this affect your
14 lending policies in any way?

15 MR. LAMARCHE: No, I don't believe there is
16 any relationship between these two factors, namely,
17 the state of the bond market and the loans granted to
18 members. Our purpose is not to make profit. If the
19 interest rates are better, all the better; but, in
20 any case, there is no change, there is no relationship,
21 no causal relationship involved.

22 COMMISSIONER GIBSON: There have been no
23 changes in your policy of lending money on mortgages?

24 MR. LAMARCHE: No. Obviously, if you go
25 15 years back, when the rates were about 5 or 5½ per cent,
26 the Caisses have approached the general trends of the
27 mortgage market, but our general principle is to lend
28 at the prevailing market price.

29 COMMISSIONER GIBSON: That is a long-term
30 tendency, but in the short-term a sharp change in
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COMMISSIONER GIBSON: There have been no

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1 MR. LAMARCHE: No, I don't believe so.

2 COMMISSIONER BROWN: Carrying on the same
3 line just a little further, you said you always have
4 waiting lists for mortgages. However, I notice that
5 on page 8 of your statistics that, in fact, the
6 amount outstanding on mortgages went down in the last
7 quarter of 1959 and then down again in the first quarter
8 of 1960. Would this be because there was a slowing
9 down in deposits?

10 MR. LAMARCHE: You have heard the proof that
11 I have mentioned a few minutes ago -- one of the
12 proofs: Namely, when the banking system is affected
13 by a very accentuated monetary situation we experience
14 the repercussions of this. At that time, 1959, our
15 Caisse received instructions not to make mortgage loans.
16 In September, 1959, this reveals an increase despite
17 this fact, because in June for \$20 million 900 thousand
18 mortgage loans there was a figure of \$2 million 494 thousand.
19 In any case, when a loan is promised to a member we
20 have to keep our word, and these loans that were
21 promised were indeed met, so that in December, you see,
22 the recommendations that were made which were in line
23 with the economic recession then prevailing began to
24 cease to be operative because there was a reduction
25 from \$21 million 530 thousand, so that in June, 1960 we
26 see that loans begin to increase after a recession
27 period.

28 COMMISSIONER BROWN: Who issued these
29 instructions that the Caisse were not to make any more
30 mortgage loans?



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mortgage loans?



1 MR. LAMARCHE: Our federation -- the
2 Montreal Federation of Caisses Desjardins instructed
3 the caisses to stop mortgage loans, and this instruction
4 was complied with by our caisses.

5 COMMISSIONER BROWN: On what did you base
6 this decision, and did this instruction -- we might
7 be losing something in the translation; it is
8 translated as "instruction": Did this instruction
9 carry any sanction with it or was it merely a recommend-
10 ation?

11 MR. LAMARCHE: It was a recommendation. There
12 was no sanction that would be applied. It was a
13 recommendation.

14 COMMISSIONER BROWN: On what did you base
15 the decision to make this recommendation?

16 MR. LAMARCHE: We were aware there was a
17 recession and the banks were asked to limit credit,
18 and we felt we might experience the effects of this
19 recession, and to prevent such a situation, as soon as
20 we were advised of this recession, and the fact it was
21 more serious than the preceding one, we advised our
22 caisses to be more cautious, and we issued instructions
23 to halt mortgages until the situation should become
24 normal again.

25 COMMISSIONER BROWN: This was based on the
26 forecast of a recession. It wasn't anything to do with
27 higher interest rates which, in fact, had taken place
28 12 months previously?

29 MR. LAMARCHE: No, this matter of higher
30 interest rates was not involved. We simply felt that



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1 the 1929 crash would reoccur so we felt it would be
2 better to be more prudent.

3 COMMISSIONER BROWN: We are delighted you
4 were wrong -- so far, anyway.

5 THE CHAIRMAN: You mention at the beginning
6 of your brief that you consider that you are subject
7 to the provincial jurisdiction and not to the federal
8 jurisdiction. We, of course, cannot decide that
9 question, but we are interested in the features of
10 your caisses -- the various banks, as you call them
11 also, I think -- no: You are very careful not to do
12 that. I am interested in what particular features
13 of your operations make your operations distinguish-
14 able from banking within the meaning of the constitution?
15 Is that clear or not?

16 MR. LAMARCHE: I haven't clearly understood
17 the nature of your question. Would you be kind enough
18 to repeat it.

19 COMMISSIONER LEMAN: What the chairman
20 has asked is, what are the distinctive characteristics
21 differentiating your operations from the operations
22 of the savings banks, or even a mutual bank? What
23 are those distinctive characteristics which make your
24 bank different from a savings bank which does similar
25 operations?

26 MR. LAMARCHE: Well, there are certain
27 fundamental differences in the way of organization and
28 structure, and in the way of operations and in the way
29 of purposes.

30 With respect to organization, the caisse



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1 represents an organization of individuals rather than
2 of capital. Evidence of this is that the capital,
3 the founding capital has been reduced to the strict
4 minimum. The law of unions states that 12 people
5 may establish a caisse, and if each person holds a
6 share of \$5, the founding capital will amount to
7 \$60.

8 Secondly, the territory in which the caisse
9 may recruit its membership is limited: Only people
10 who live within the established territorial limits
11 may become members of the caisse.

12 Thirdly, only members of the caisse can
13 obtain its services, and in order to become members
14 they must subscribe to part of the registered capital.

15 Fourthly, all members are co-proprietors
16 of their caisse.

17 Fifthly, each member has the right to only
18 one vote regardless of the number of shares he holds,
19 and it is forbidden to vote by proxy.

20 Sixthly, each caisse is independent and has
21 its own organization, its own parish organization.

22 The fundamental difference in structure is
23 as follows: The caisse includes a board of administra-
24 tion, a loan committee and a supervisory committee.
25 All these officials are elected by the members at a
26 general meeting. None of these officials receives
27 salary or dividends or any other remuneration whatsoever,
28 except for the manager. Neither the loan committee
29 nor the supervisory committee is subordinate to the
30 board of administration. Each of these three bodies



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1 is subordinate to the general meeting of the members.

2 Registered capital is limited. This
3 limitation has been established by the general meeting,
4 and the responsibility of the members is limited to
5 the number of shares that have been subscribed to.

6 Now, differences in operation: The caisses
7 receives savings deposits but not deposits from industrial
8 or commercial or financial groups. Also it grants
9 loans but not to such groups. The caisse does not
10 engage in discount operations and it does not operate
11 any foreign exchange sections.

12 Now, the fundamental differences in purpose.
13 The purposes are as follows: Assistance on the economic
14 and social level, in order to enable the economically
15 weaker individuals to group their savings and to use
16 them in accordance with the needs of each individual,
17 and by so doing to attain a degree of economic and
18 social liberation that the individuals separately could
19 not attain otherwise, and in so doing to open the
20 way to credit facilities at reasonable rates in cases
21 where such credits are generally refused to these
22 individuals. Also to rehabilitate the human personality
23 in considering him not by virtue of his wealth but
24 by taking account of his moral value. To enable a
25 group of people to become familiar with the administra-
26 tion problems regarding the monies deposited in their
27 caisse, and to acquaint them with the administration
28 of a budget and to promote the development of the
29 necessary qualities required for savings and for the
30 upholding of the obligations that have been undertaken,



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of a budget and to promote the development of the
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fulfilling of the obligations that have been assumed.



1 and to enable a group of individuals to devote
2 themselves to the benefit of their fellow citizens
3 by developing a sense of solidarity and mutual
4 responsibility.

5 THE CHAIRMAN: Those are the various features.
6 They are undoubtedly features that distinguish
7 your operations from those of the chartered banks
8 and the institutions that we are accustomed to call
9 banks. I am interested to find out as much as I
10 can through our hearings across the country as to
11 what the views are of the various institutions which
12 are not now regarded as banks but perhaps constitution-
13 ally would come under the bank section of the B.N.A.
14 Act, and I have no answer to this problem -- if it
15 does become a problem -- and I am very much interested
16 in what you have to say about that, and I appreciate
17 very much your answer to that question. It is very
18 comprehensive and very full. As I understand it,
19 the purposes of your institution are of a local nature,
20 to begin with, and it is really a matter of property
21 and civil rights rather than a business carried on
22 for profit, and also for dealing with the public at
23 large, largely including business and all sorts
24 of activities who may wish to have their services.
25 That is the main line of distinction as you see it.
26 Now, whether that is the proper, legal distinction or
27 not I am not in a position to say, and nobody so far
28 has apparently dealt with that question, but we are
29 very much interested in your views on it and the
30 way you have put it.

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1 We thank you Mr. Lamarche for coming
2 here today and for the interesting information you
3 have given us.

4 We will now adjourn until 9.15 A.M.
5 tomorrow when we will have the submission of the
6 Quebec Savings Banks.

7 --- Adjournment.

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Royal Commission on Banking and Finance

Hearings
held at
Montreal

Vol.
16 A

Date.
May 16 1962



Official Reporters
J.J. Nethercut and R.J. Young
Toronto, Ont.

Business Dynamics

La Fédération de Montréal des Caisseries
Destardins

A 1546

A 1533

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Business Dynamics

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La Federation de Montreal des Caisses
Desjardins

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SUMMARY

I submit that small industry -- here defined as manufacturing and construction companies having combined debt and equity needs of less than \$2 million -- does not receive the amount of financial support it needs and deserves.

This situation arises from the relative shortage of business development capital in Canada, as compared with other highly industrialized societies. It is aggravated by the tendency for the limited available supply of institutional and private funds to become channelled into major corporations, real estate, mining and other non-manufacturing enterprises.

Legislative measures have been taken in recognition of, and to alleviate, the scarcity of small industry development funds. These measures have proved, in practice, less effectual than might have been hoped by Parliament and the business community. They have been particularly disappointing insofar as companies having rapid growth or approaching major corporate status are concerned.

This brief makes reference to Trade Creditors, Insurance Companies, Finance Companies, Chartered Banks and Industrial Development Bank and the Public Stock Markets. Some lending practices and limitations of the Banks are examined and the following conclusions are drawn:

1. The Chartered Bank maximum lending rates are set too low to permit sufficient participation in development situations



This situation arises from the relative
scarcity of the raw materials and the
limited supply of industrial and agricultural
products. The demand for these products is
increasing rapidly and the supply is not
keeping pace with the demand.

Legislative measures have been taken in
order to increase the production of these
products. These measures include the
establishment of new industries and the
expansion of existing ones. It is hoped
that these measures will result in a
significant increase in the production of
these products.

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A1534

1 which, by nature, involve unusual risk and
2 administrative effort.

3 2. The Small Business Loan Act needs more induce-
4 ments for the Chartered Banks to extend its
5 theoretical advantage to the business
6 community.

7 3. The Industrial Development Bank is duplicating
8 much of the service supposedly provided under
9 the Small Business Loan Act, and failing to
10 support adequately growing companies by way of
11 debt and, more particularly, investment.

12 4. The small manufacturer needs better protection
13 than is now provided in event of unscrupulous
14 creditors' bankruptcy, and relief from the
15 complexity -- if not the amount -- of
16 corporation tax demands upon him.

17 It is therefore recommended that consideration be
18 given to:

19 1. Permitting bank lending rates to approach
20 10 per cent in appropriate situations.

21 2. Encouraging small business investment by
22 Industrial Development Bank, or through
23 Small Business Investment Corporations along
24 the lines of recent U.S. practice.

25 3. Making more frequent use of long-term
26 bank debt wherever investment is desirable
27 but impractical.

28 4. Providing more rapid and more imaginative
29 aid in situations where prompt action is
30 necessary to preserve the flexibility of small



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1 business.

2 5. Undertaking a detailed study of the
3 financial problems and needs of private
4 corporations approaching, yet still too
5 small to economically command the support
6 of, public ownership.

7 These and other observations contained in
8 this brief are submitted by the writer in his personal
9 capacity as private consultant to small industry.
10 There is no actual or implied sponsorship or identifica-
11 tion with other groups or individuals. Nevertheless,
12 similar views are believed to be held unspoken by many
13 small industry principals.

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BRIEF

It is generally agreed that establishment of new, and continuation of existing, secondary industries in Canada is desirable. They contribute to employment, help to reduce the international trade deficit, convert some of the nation's abundant raw material supply and lend stability to the economy. Geographic and population factors to some extent limit the types of secondary industry which the country can support with advantage. Nevertheless, many desirable avenues for increasing exports and/or reducing imports remain unexplored or undeveloped. Lack of sufficient capital is one important reason why this situation prevails.

The United States and some other nations are more liberally endowed with risk capital than is Canada, because of their broader and older established industrial base. Appreciable quantities of their "surplus" capital are invested in Canadian primary industries. Unfortunately, only tariffs provide incentive for foreign investment in secondary industry as such action may tend to reduce demands on conversion plants already owned and operated in other lands. Thus secondary manufacturers can only look to domestic sources for the financing required by their operations. Such factors as limited disposable income, and taxation policy slow the rate of private capital accumulation and compel industry to use substantial amounts of debt in place of equity to complete its capital structure.

The use of debt requires security based on



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A1537

1 proven earning power and fixed assets. Small and
2 especially new manufacturers naturally have more
3 difficulty meeting these criteria than do larger or
4 older established organizations. Yet often the relatively
5 light demands of small manufacturers are more vital to
6 them and, if satisfied, may well prove to be the most
7 rewarding to the long range national interest.

8 Small industry -- which for this purpose
9 is defined as manufacturing and construction enterprise
10 unable to command financial support through the public
11 stock market at economical costs -- may have justifiable
12 combined equity and term debt needs approaching
13 \$2 million. The first is difficult to attract or generate
14 and the second may be prohibitively expensive. This
15 is more particularly true as the requirement passes
16 say \$250,000 and may account for the number of growing
17 concerns that fall prey to certain promoters with
18 little interest in corporate well-being.

19 The current financing position of these
20 companies is usually strained because cash generated
21 from operations is largely expended on necessary fixed
22 asset acquisitions and/or debt retirement. Short
23 term creditors are, therefore, asked to "overfinance"
24 current assets. The ceiling set on chartered banks'
25 lending rates undoubtedly lowers their "resistance
26 point" and trade creditors have to set tight limits
27 in order to preserve some degree of liquidity for
28 themselves.

29 The outcome of this type of "thin equity"
30 financing is the high leverage unintentionally enjoyed



1 by many small industrial principals. Leverage, so
2 high in fact, that they willingly part with much of
3 this advantage by paying interest rates of 18 per cent
4 or more on short to medium term credit. These
5 borrowings with their too high interest rates and rapid
6 repayment terms injure and sometimes "kill the goose
7 that lays the golden egg".

8 The nature of successful industrial enter-
9 prises is to require capital growth at the same or
10 greater rate than, and always in advance of, production
11 increases. Large capital outlays are generally
12 necessary prerequisites to notable increases in output
13 or earnings. Financing difficulties may slow up or
14 indefinitely postpone desirable expansion.

15 New companies starting from the grass roots
16 of a sound product, technical proficiency, strong
17 ambition and adequate administrative ability are
18 further handicapped unless the principals are unusually
19 well placed in terms of available investment funds.
20 Their organizations lack proven earning power and
21 special equipment needs may consume all available monies
22 leaving nothing for operating capital or vice versa.
23 Outside equity is difficult to attract because the
24 sources are unknown (or wholly committed to real estate
25 speculation) and, too often, because the cost of such
26 outside support is too high to the extent of control
27 transfer such equity can command.

28 Those new industries which manage to create
29 new markets, using term debt, are frequently compelled
30 to confine their asset programmes and operations to a



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...the ...
...the ...

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come their first asset programmes and operations to a



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1 low level where, at best, progress is slow or, worse,
2 activity is at uneconomically low levels. Meanwhile,
3 larger corporations may take over the newly developed
4 volume markets which the smaller have created but
5 cannot satisfy.

6 Product development by small companies for
7 sale of manufacturing rights to major producers may be
8 desirable. Unfortunately, the possible economics of
9 this arrangement are negated by the fact that the
10 development company's earnings are erratic unless a
11 steady product flow is retained and this kind of
12 financial picture attracts little equity investment
13 and commands practically no debt support. There being
14 neither inventory or receivables of consequence nor
15 common purpose fixed assets to support conventional
16 mortgages.

17 The prospect of capital gain with attendant
18 tax advantages, stimulates some private investment
19 in industry but, apparently, offers insufficient
20 inducement to attract more than a small portion of
21 the amount needed. Moreover, the limited funds that
22 do exist tend to pass into well established corporations
23 because of the restrictions set upon -- or within --
24 insurance companies and similar institutions.

25 The lending activities of chartered banks
26 are somewhat restricted by internal policy and the
27 Bank Act. Short/medium term debt requirements have
28 been filled to some extent by equipment finance
29 companies and the like. The latter's contribution
30 to industrial advancement in recent years is undoubted.



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AA540

1 They must, however, loan funds at interest rates
2 sufficiently high to cover operating expenses and,
3 of course, earn a satisfactory return for the risk
4 taken. These rates, when coupled with short repayment
5 periods, tend to cause heavy cash outflows from
6 manufacturing operations and compel continuous
7 re-financing, thereby negating much of the apparent
8 advantage of this form of debt.

9 It is presumed, from the Industrial Development
10 Bank, Small Business Loan and associated Acts of
11 Parliament, that enlightened economic and political
12 opinion has recognized the need and justification for
13 supporting small business. Appropriate legislative
14 measures have been taken with the result that -- on
15 paper -- Canada probably has advanced further than
16 any other nation in fostering small business opportunity,
17 with the possible exception of U.S. Small Business
18 Investment Corporation activities since 1958.

19 The practical application of government
20 legislation has also set an example that such groups
21 as the U.S. Small Business Administration and British
22 Finance Corporation for Industry and Commerce might
23 well emulate. Nevertheless, international leadership
24 should be a stimulus to further advances, not a
25 justification for leaning on laurels earned. In the
26 writer's opinion, some of the legislative enthusiasm
27 has died or been extinguished at the level of positive
28 action by unforeseen and as yet unresolved problems
29 or by policy restrictions created by authorities
30 responsible for putting the legislation into effect.



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A1541

Without judging the correctness of interpretation or policy decisions, I would venture to say that a notable segment of the business community is confused. Not because of a continuous movement of policies in one direction but because of vacillation evident from a proprietor's personal experience or from press comments, on changes in lending policy.

Small manufacturers seldom are able to undertake necessary long term planning and, when they do, assurance of future capital availability is not forthcoming. The distant future is, naturally, less clear than the near present. This does not justify, however, the common situation where a company principal can be progressively less sure of future relations with:

- (a) Trade Creditors
- (b) Equipment Suppliers & Financiers
- (c) Chartered Banks
- (d) Industrial Development Bank
- (e) Investors

Manufacturers have personal experience in both giving and receiving trade credit and can forecast trade behaviour fairly accurately. The sale profit motive evident here carries through to equipment suppliers and finance companies, making their action predictable to some extent.

Chartered banks not only are, by nature, more austere, but also their quick response to so-called general "tightening" of credit can be most disconcerting. The poor initial output of Small Business Loans, which they administer, hardly justifies the high hopes which



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A1542

1 many businessmen held for this legislation.

2 The Industrial Development Bank has periodic
3 bursts of enthusiasm, then reaction, which may
4 thoroughly confuse a businessman with dual interests,
5 only one of which can obtain support, because separate
6 loan applications were made at different times in the
7 pendulum swing. Also, he may believe a less worthy
8 competitor is being "subsidized" with assistance
9 which he himself has been refused.

10 Finally, investors are expected to remain
11 impulsive, as evidenced by the current popularity of
12 junior industrial stock issues. Investors are also
13 scarce.

14 There are many existing and potential
15 industries that lack the finances they deserve. Also,
16 there are many that do not make profitable use of monies
17 available to them. It is desirable that some method
18 be devised for gearing availability of capital directly
19 to a company's return on capital structure.

20 Some proprietors overestimate their own
21 relative merits and contribution to prosperity. Conversely,
22 they are entitled to more non-financial considerations
23 such as reductions in questionable income tax and
24 bankruptcy policies and political patronage.

25 To protect the flexibility of small business
26 it is also very desirable to speed the processing of debt
27 arrangements, which from the viewpoint of many Small
28 Business Loan and Industrial Development Bank applications
29 leaves much to be desired. There is a danger that protracted
30 negotiations will cause an applicant to miss a worthwhile



1 opportunity or accept whatever is eventually offered,
2 rather than disclose an intelligent change of plans
3 and needs at the risk of undergoing further delay.

4 The proportion of repeat Industrial Development
5 Bank borrowers, 22 per cent in 1961 could be indicative
6 of their success and satisfaction with this source of
7 financing. Conversely, it may mean that borrowers
8 have to return on account of inadequate financing in
9 the first instance because loans, which must be retired
10 in a few years, are being made where investments would
11 be more appropriate to companies' growth needs.

12 Arrangements for blended interest and
13 principal payments should more frequently be made
14 available to I.D.B. borrowers, at least for land and
15 building programmes. Not only is this a commonly
16 used and better understood industrial practice, but
17 it also goes some way towards recognition that physical
18 facilities are generally and properly purchased oversize
19 for immediate requirement and only enter the stage
20 of full utilization and profitability in the latter
21 years of their life.

22 The average amount owed per I.D.B. customer
23 has declined rapidly from \$94,000 in 1956 to \$56,000
24 in 1961. Assuming the amount owed is in the neighbour-
25 hood of 50 per cent of the depreciated value of customers'
26 fixed assets, one might infer that the average customer
27 has fixed assets worth just over \$100,000. Many single
28 items of equipment could cost this much, as would just
29 20,000 sq. ft. of unequipped building.

30 The average amount of I.D.B. loans authorized



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A1544

1 in fiscal 1961 was \$52,000. In fact, 45 per cent
2 of all loans made in that period were below the \$25,000
3 upper limit of the Small Business Loans Act. These
4 figures hardly suggest that this source adequately
5 caters to the needs of companies attempting to bridge
6 the gap between the smallest proprietorship and the
7 publicly owned corporations.

8 Distribution of the limited equity and debt
9 financing is largely determined by a Risk/Reward
10 equation. If the Reward (interest adjusted for expenses
11 and losses) is fixed arbitrarily then must the maximum
12 debt financing available be limited by considerations
13 of security (including equity) and earning power.
14 As the Chartered Banks and Industrial Development Bank
15 interest rates are circumscribed it follows that the Risk
16 component of the formula must be held down unless a
17 greater risk is assumed by finance companies at interest
18 rates three or more times higher. The broad field
19 between these two extremes is practically unexplored.
20 It is surely desirable to fill this gap if companies
21 are to avoid the opposing dangers of uneconomically
22 small asset programmes or prohibitively high interest
23 costs.

24 Many companies have worked their way from
25 high interest financing to a lower level. Both lenders
26 and borrowers should be congratulated for making this
27 desirable transition possible. Nevertheless, it would
28 seem desirable to ease this process by enlarging the
29 range of finance company and bank interest rates so
30 that they meet -- comfortably -- at about the 10 per cent



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A1545

level.

Recognizing the fact that businessmen prefer to pay higher interest rates as the security risk of their proposals increase, rather than arbitrarily reduce the risk (programme) to fit a rate in the region of 6 per cent; it is suggested that the chartered banks and the Industrial Development Bank be permitted to charge higher rates. The latter should also be prepared, in practice, to lengthen repayment terms to provide a better substitute for the investment they seem unable to make in more than a very few cases. This action would necessitate more frequent supervision of accounts, which is both desirable and economically feasible if the cost is reflected in the interest rate.

It takes many years for even very profitable small manufacturers to build up a net worth of \$1 million, if term debt servicing consumes all depreciation. Meanwhile, corporate taxes of almost the same amount have been paid and employment has been given to many people. I submit that Canada can ill afford slow industrial development caused by inadequate supplies of loan and investment funds; moreover, these should be made available to hasten the growth of small manufacturers who can use them profitably.



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supplies of loan and investment funds; moreover, these

should be made available to hasten the growth of small

manufacturers who can use them profitably.



1 La Federation de Montreal des Caisses
2 Desjardins and the Cassetes Populaires which are
3 affiliated to it are governed by statutes of the
4 Province of Quebec which are cited under the title
5 of "An Act Respecting Co-operative Syndicates".

6 To avoid ambiguity, we are permitting ourselves
7 at the outcome of this brief to affirm that the organ-
8 ization which we represent is a savings and credit
9 co-operative related exclusively to provincial
10 jurisdiction. Consequently, our participation must not
11 be considered as an acceptance of the jurisdiction
12 of the Commission on the activities of La Federation
13 de Montreal des Caisses Desjardins but as an expression
14 of our desire to furnish the Commission with inform-
15 ation which will enable it to complete the studies
16 which it is undertaking.

17 1. Introduction

18 After Mr. Alphonse Desjardins had founded
19 the co-operative movement by the formation of two
20 Caisses Populaires at the beginning of the 20th Century,
21 the Provincial Legislature of the Province of Quebec
22 enacted in 1906 the first act governing co-operative
23 syndicates in the Province of Quebec. The development
24 of the co-operative movement and the increase in the
25 number of Caisses Populaires necessitated the grouping
26 of these units into a Federation.

27 For a long period of time, all of the
28 Caisses Populaires Desjardins were affiliated in a
29 single federation known as "La Federation de Quebec
30 des Unions Regionales des Caisses Populaires".

Information is given for Chinese

information which are

information which are

To avoid ambiguity, we are permitting ourselves

at the outset of this brief to affirm that the organ-

ization with which we represent is a savings and credit

jurisdiction. Consequently, our participation must not

be considered as an acceptance of the jurisdiction

of the Commission on the activities of its jurisdiction

to conduct the Chinese hearings but as an expression

of our desire to furnish the Commission with information

which will enable it to complete the studies

which it is conducting

I. Introduction

After the Chinese hearings had commenced

the cooperative movement by the formation of two

Chinese committees in the province of two South China

the Provincial Committee of the Province of South

started in 1936 the first and second cooperative

committees in the Province of South China. The development

of the cooperative movement and the progress in the

of these committees have been

For a long period of time, all of the

Chinese cooperative committees were established in the

information which are



2. Origin

On the 12th of November 1945, eight Caisses Populaires of the diocese of Montreal separated themselves from La Federation de Quebec and founded La Federation de Montreal des Caisses Desjardins.

Two principal motives were the cause of the foundation of this new Federation.

These Caisses were convinced that decentralization would better serve the ends of the co-operative movement, and further, they were all opposed to the extension to the movement on a national basis.

By this decentralization, they could obtain a more uniform composition, and the new federation would answer the needs of a specific region. Secondly, the internal administrative problems related to inspection influenced the Caisses to form the new federation.

3. Caisse Populaire

The Caisses Populaires constitute the elements of a federation. We feel it necessary that a close examination be made of the functions of credit and savings syndicates and that their essential characteristics be explained.

A. Shareholders

We term the shareholders the members of a Caisse Populaire who have purchased a share or shares of its capital. Like all co-operative organizations, the Caisse can only exist through the medium of shareholders; in fact, the statutes oblige the Caisse



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A1548

1 to deal only with members and therefore only those
2 persons who have been accepted as shareholders can avail
3 themselves of the benefits and other advantages of the
4 Caisse Populaire.

5 The Act respecting co-operative syndicates
6 and the by-laws of Caisses determines the conditions
7 of membership. It should be noted that it can only be
8 composed of persons who have their residence within
9 the syndicate's legal territory. Each member must
10 purchase at least one share valued at \$5.00 and all
11 members or shareholders are responsible for any debts
12 of the Caisse up to the amount of its shares paid up or
13 subscribed. In order to promote economy amongst
14 school children, this regulation has been waived
15 for them: The caisses accept their savings deposits
16 without asking them to subscribe to share capital. The
17 by-laws provide for two categories of shareholders. The
18 first is composed of persons who are capable of
19 contracting and who have their residences in the
20 syndicate's territory. These members are the only
21 members who are allowed to participate in the general
22 meetings of the Caisses Populaires. It is important
23 to underline the fact that the right of vote is
24 accorded to a member because he is a shareholder and
25 is not based on the amount of shares which he holds
26 in the organization. The second category of shareholders
27 is designated as auxiliary members, comprised mainly
28 of minors, married women, and members who no longer
29 live within the territorial limits of the Caisse.

30 Even though the second category of members



1 subscribe to the capital of the organization, they
2 are not allowed the right to vote at the general
3 sessions of the organization. They are also not
4 eligible for election to the Board of Directors and
5 the Credit and Supervisory Committees.

6 The active members who have a right to vote
7 elect, from the ranks of the shareholders, those who
8 will be members of the Board of Directors, Credit
9 Committee and Supervisory Committee. None of the
10 officials selected for these various committees receive
11 any remuneration. The only individual who receives
12 a salary is the Manager of the Caisse, selected by
13 the Board of Directors, within its ranks.

14 B. Organization

15 (a) Board of Directors

16 The shareholders must elect a Board of
17 Directors, and the members for this board are chosen
18 from among the shareholders and should compose a group
19 of not less than five individuals and not more than
20 thirteen individuals. The members of the Board of
21 Directors are elected for a period of three years,
22 with staggered terms. They can be re-elected.

23 We find that the obligations and powers of the
24 society are explained in the Act respecting co-operative
25 syndicates. By and large, all matters not explicitly
26 referred to the Credit or Supervisory Committee by the
27 Act or the by-laws all come within the jurisdiction
28 of the Board of Directors, which is responsible for
29 the good administration and the growth of the society.
30 It has full jurisdiction on such matters as the hours



1 of operations, the hiring and the setting of salaries
2 for various employees, and all other administrative
3 problems. The Board in the exercise of its juris-
4 diction, can approve new members for admittance to
5 the organization and can regulate the transfer or
6 withdrawal of shares. The Board determines, within
7 the limitations of the Act, the manner in which to
8 utilize the surplus funds and suggests at the annual
9 meeting the distribution of profits in dividends and
10 rebates. The Board is also responsible to fill in any
11 vacancies that occur in any of the committees during
12 the year. Finally, the Board of Directors is responsible
13 for the administration of the Caisse Populaire as
14 prescribed by statute and the by-laws of the Caisse
15 on the regulations of the Federation to which the
16 Caisse is affiliated. In order to accomplish more
17 efficiently the tasks assigned to the Board, an
18 executive committee is formed and is composed of a
19 President, a Vice-President, a Secretary, and the
20 Manager of the Caisse. By virtue of the extensive
21 authority vested in the Board of Directors, it is
22 responsible to the shareholders for the success or the
23 failure of the enterprise and the law states that the
24 members of the Board will be held personally responsible
25 for any violations or infractions as designated within
26 the statute.

27 (b) Credit Committee

28 We have already underlined that the Caisses
29 Populaires are a co-operative credit and savings unit.
30 One of the essential aims of the movement is to furnish



of operations, the hiring and the setting of salaries for various employees, and all other administrative problems. The Board in the exercise of its jurisdiction, can approve new members for admittance to the organization and can regulate the transfer or withdrawal of shares. The Board determines, within the limitations of the Act, the manner in which to utilize the surplus funds and suggests at the annual meeting the distribution of profits in dividends and rebates. The Board is also responsible to fill in any vacancies that occur in any of the committees during the year. Finally, the Board of Directors is responsible for the administration of the Caisse Populaire as prescribed by statute and the by-laws of the Caisse or the regulations of the Federation to which the Caisse is affiliated. In order to accomplish more efficiently the tasks assigned to the Board, an executive committee is formed and is composed of a President, a Vice-President, a Secretary, and the Manager of the Caisse. By virtue of the extensive authority vested in the Board of Directors, it is responsible to the shareholders for the success or the failure of the enterprise and the law states that the members of the Board will be held personally responsible for any violations or infractions as designated within the statute.

(c) Credit Committee

We have already underlined that the Caisse Populaires are a co-operative credit and savings unit, one of the essential aims of the movement is to furnish



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A1551

1 its members necessary credit which they are unable
2 to obtain elsewhere or by any other manner. This
3 credit is given in the form of loans and this matter
4 is left to the sole decision of the credit committee.
5 The shareholder who wishes to obtain a loan must
6 make application to the credit committee. The credit
7 committee is composed of three members, and these are
8 elected at the annual meetings of the association.
9 The members of the committee are generally elected
10 for a period of three years with staggered terms.
11 It should be added that the Manager of the Caisse
12 fulfills the role of the Secretary on the Credit
13 Committee. The loan is usually granted in the form of
14 hypothec on real estate, or of promissory note. The
15 maximum amount to be made available for personal loans
16 is determined at the general assembly meeting. However,
17 in practice, it does not exceed \$2,000. The members
18 of the credit committee are the only individuals who
19 can accept or refuse a request for the loan and that
20 decision is based on the purpose of the loan, the
21 character of the borrower, and his financial situation,
22 as well as the other factors required to assess the
23 risk. When the loan requested is in the form of a
24 hypothec on property it is necessary that the credit
25 committee visit the property concerned in order to
26 determine its actual or market value. The manager
27 must arrange for the shareholder to prepare a question-
28 naire on his complete financial situation and the
29 evaluation of the property being considered for hypothec.

30 Members of the Credit Committee are responsible



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A1552

1 for determining the rate of interest for each loan
2 and also the method of repayment. The Committee is also
3 responsible for the assurance that all borrowers are ful-
4 filling their obligations to the Caisse regarding their
5 loans. In the case of any shareholder defaulting
6 in the repayment of his loan, the Committee will refer
7 the matter to the Board of Directors, if all efforts
8 have failed to arrange for the repayment of this loan.
9 It will be up to the Board of Directors to decide on
10 the method of recovery for the funds outstanding.

11 Generally, it can be stated that the Caisses
12 have never sustained any losses as a result of loans
13 for hypothecs or for loans guaranteed by collateral.
14 The losses which have resulted from personal loans
15 represent such a small portion of the business carried
16 out by the various organizations that they are really
17 not worth mentioning, and are usually absorbed by
18 current income, sometimes by the reserve fund. Some
19 Caisses Populaires have established a contingent
20 liability fund to guard against possible losses of
21 loans. In view of the role of the Credit Committee,
22 the Act and by-laws do not permit any of the members
23 of the Committee to borrow funds for their own personal
24 purposes or to endorse any notes on behalf of any of
25 the shareholders.

26 (c) Supervisory Committee

27 This third Committee provides the shareholders
28 with an instrument with which to scrutinize the work
29 of the Board of Directors and the Credit Committee
30 to ensure that the affairs of the Caisse are conducted



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A1553

1 in accordance with the wishes of the general meeting
2 and also in accordance with the regulations as
3 prescribed. The three members of this Committee are
4 elected in the same manner as the members of the other
5 Committees by a meeting of the General Assembly.

6 In the exercise of their general duties, members of
7 this Committee are responsible for the examination
8 of the books of the Society from both an administrative
9 and financial point of view and to arrange for the annual
10 examination and audit of the operations of the Caisse
11 by the regular inspectors of the Federation to which
12 the Caisse is affiliated.

13 The Supervisory Committee must notify the
14 Board of Directors in writing of any irregularities
15 which it has detected and also inform the Board of
16 adequate measures which should be taken to rectify
17 the shortcomings. If action is not taken immediately
18 to rectify these discrepancies, the Committee has the
19 authority to call a general meeting of all shareholders
20 in order that appropriate decisions may be made in
21 regard to these matters. When the situation warrants
22 it, the members of the Supervisory Committee have
23 the authority to suspend any employee of the Caisse
24 or any members of the Credit Committee. In these
25 circumstances, the Committee should call an urgent
26 meeting of all shareholders in order that the matter
27 may be fully discussed.

28 Similarly to the members of the Credit
29 Committee, the members of the Supervisory Committee
30 are not allowed to borrow funds or to endorse any notes



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A1554

1 on behalf of the shareholders.

2 Shareholders, Credit Committee, Supervisory
3 Committee, Board of Directors, such are the essential
4 elements in the organization of the Caisse. In order
5 to permit these various groups to obtain maximum
6 efficiency in the performance of their respective
7 roles, the Federation plays a most essential part
8 as a technical counsellor to these various bodies.
9 In a further chapter of this brief, we will describe
10 the functions of the Federation, and how it proceeds
11 to fulfill its role without impairing the autonomy
12 of the Caisses.

13 C. Operations

14 Essentially, the Caisse Populaire receives
15 from its operations the necessary funds which permit
16 it to lend money to the shareholders and to realize
17 benefits which are redistributed in the form of bonuses
18 on share capital, interest on savings and rebates
19 of interest on loans.

20 Share Capital

21 We have already seen that each member is
22 obliged to purchase at least one share of capital
23 in the Caisse. This subscription demands an entry
24 fee varying from \$0.10 to \$0.60 a share, that goes
25 into the reserve fund. The maximum number of shares
26 which may be held by any shareholder is determined
27 at the annual meeting and this amount may vary from
28 50 to 600 shares. This is usually established as a
29 percentage of the capital in relation to savings.
30 In general, the number of shares usually represents from



5 per cent to 10 per cent of savings.

Savings

Conscious of promoting thrift amongst its members and in order to cater to the various financial situations of its members, the Caisses Populaires affiliated in the Federation de Montreal have established four categories of savings accounts.

1. Regular savings accounts. These accounts are subject to withdrawals on orders of payment and accrue interest at the rate of 3 per cent.
2. Special savings accounts. These accounts demand, in certain cases, a minimum deposit and are not subject to withdrawals by orders of payment. The interest payable on these accounts may vary from 4 per cent to 5 per cent.
3. School savings accounts for the benefit of school children. The funds are collected in the local school and are deposited with the Caisse afterwards.
4. Term Savings Accounts without withdrawal privileges, including trust funds for endowment purposes, etc.

With the money received from its members, the Caisse loans, in accordance with the limits permitted under the regulations, necessary sums to its members.

Loans

We have seen in the chapter relating to the credit committee that two types of loans are available from the Caisse to its members, and these are the



1 personal loans on promissory notes and loans made
2 in the form of hypothec on property.

3 It should be indicated here that property
4 loans are normally granted for from 50-80 per cent
5 of the actual value of the property in question. The
6 hypothec loan being made to the benefit of the share-
7 holder, he is always allowed to effect repayment
8 in whole without indemnity when his financial situation
9 permits him to do so. Partial payments are made on
10 a monthly basis and, in certain cases, on a three-month
11 basis. The normal duration for a mortgage loan varies
12 3-5 years, although the periodic payments are calculated
13 on amortization periods ranging from 10-15 years.

14 With regard to personal loans, these may be
15 described in the following four categories:

- 16 1. A loan covered by a promissory note with
17 or without endorsers;
- 18 2. A loan which is guaranteed by securities
19 as described in Section 40 of the Act;
- 20 3. A loan which is guaranteed by shares in the
21 Caisse and;
- 22 4. A loan which is guaranteed by money in a
23 savings account.

24 The rate of interest varies from 6 - 9 per
25 cent per annum on the balance outstanding each month.

26 This same rate of interest is applicable
27 to hypothec loans; however, it should be pointed out
28 here that this amount includes the premium for life
29 insurance for the value of the loan in question. The
30 maximum amount of insurance obtainable is \$10,000.



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A1557

The Caisse has taken advantage of this scheme for the benefit of the member concerned as well as for the benefit of his heirs.

Investments

After having satisfied the loan demands of its members and also being assured that sufficient funds are available for the daily operations of the Caisse, it is authorized to make the following investments in accordance with Article 40 of the Act respecting co-operative syndicates. An extract of Article 40 reads as follows:

"All the investments by such credit associations must be made in stocks or debentures of the Dominion of Canada or the Province of Quebec or expressly guaranteed by the Dominion or the Province or in the loans of any municipality or of any school corporation in this Province, or in duly authorized loans for the erection or repair of churches, presbyteries, or cemeteries in this province, or in the loans of fabriques or ecclesiastical, or religious corporations in this Province, or in real estate of this Province, or on a first privilege or first hypothec to an amount not exceeding three-fifths of the municipal evaluation of real estate effected."

All of these investments are submitted to the Federation for prior approval and, with the exception of debentures of the Dominion of Canada, these do not exceed a period of ten years before reaching maturity.



of its members and also being assured that sufficient funds are available for the daily operations of the Caisse, it is authorized to make the following investments in accordance with Article 40 of the Act respecting co-operative enterprises. An extract of Article 40 reads as follows:

"All the investments by a co-opérative association must be made in stocks or debentures of the Dominion of Canada or the Province of Quebec or expressly guaranteed by the Dominion or the Province or in the loans of any municipality or of any school corporation in this Province, or in duly authorized loans for the erection or repair of churches, orphanages, or cemeteries in this Province, or in the loans of factories or industrial, or religious corporations in this Province, or in real estate of this Province, or on a first mortgage or first hypothec to an amount not exceeding three-fifths of the municipal evaluation of real estate situated."

All of these investments are submitted to the



1 The Caisses vary their holdings in the selection
2 of investments which provide the best return and also
3 careful attention is paid to the various maturity
4 periods. The majority of bonds which are purchased
5 are retained until maturity has been reached and
6 these are accounted for by quoting the actual cost
7 price, plus the interest which has accumulated. All
8 in all, the Caisses have attempted to establish a
9 series of monthly maturity dates which assure a more
10 satisfactory liquid reserve.

11 If the bond or security is acquired at a
12 discount, it remains unchanged until its date of
13 maturity or until the date of its sale. If a profit
14 is, thus, realized, it is accounted for as capital
15 gain. If such a bond or security is purchased at a
16 premium, the premium is amortized over the period
17 of years to the date of maturity.

18 The general revenues of the Caisses serve to
19 cover administrative operating expenses, the interest
20 on deposits, and contributions to the various reserve
21 funds. Any balance left over is distributed to the
22 shareholders of the Caisse in the form of a bonus
23 on capital holdings and also as rebates on loans.

24 Reserve Funds

25 The Act respecting co-operative syndicates
26 stipulates that the credit association shall apply
27 a percentage of its net annual profits to a creation
28 of reserve and contingency fund to cover certain
29 possible losses whether ordinary or extraordinary
30 during the course of the year, and to make possible



careful attention is paid to the various maturity periods. The majority of bonds which are purchased are retained until maturity has been reached and these are accounted for by quoting the actual cost price, plus the interest which has accumulated. All in all, the Calcasieu have attempted to establish a series of monthly maturity dates which assure a more

If the bond or security is acquired at a discount, it remains unchanged until the date of maturity or until the date of its sale. If a profit is, thus, realized, it is accounted for as capital gain. If such a bond or security is purchased at a premium, the premium is amortized over the period of years to the date of maturity.

The general revenues of the Calcasieu serve to cover the expenses of the company, and contributions to the reserve on deposits, and contributions to the reserve on deposits. Any balance left over is distributed to the shareholders of the Calcasieu in the form of a bonus on capital holdings and also as rebates on loans

Reserve Funds

The following are the respective cooperative organizations



1 a distribution of bonuses to shareholders even if at
2 the end of the year's operation, no profit is shown
3 by the organization.

4 Article 39 of the Act governing the co-
5 operative syndicates and Articles 47 - 51 of the Statutes
6 of the Caisse outline the mechanism for the operation
7 of these two funds.

8 Security

9 The Caisses affiliated in the Federation de
10 Montreal are all equipped with safety devices to guard
11 against loss by theft as well as by loss by fire.
12 Steps have been taken to provide the shareholders
13 with a reasonable degree of security for their savings
14 entrusted to them.

15 At the administrative level protection of
16 the shareholders is assured by the built-in internal
17 controls of the Caisse as this was explained previously
18 in this brief. In addition, the Caisse holds an
19 insurance policy with full coverage against fraud
20 and theft and also to cover other irregularities.

21 Characteristics

22 We now have a better understanding of the
23 essential characteristics of the Caisse Populaire
24 in regard to its constitution, methods of operation,
25 and the objectives which are pursued. The Caisse is
26 primarily a group of individuals who wish to help
27 themselves in an economical and social manner. To
28 achieve this, these individuals pool their savings to
29 constitute a common capital to provide them with benefits
30 which they could not obtain all alone.



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Article 3) of the Act governing the co-
operative syndicates and Articles IV - VI of the Statutes
of the Caisse outline the mechanism for the operation
of these two funds.

The Caisse affiliated in the Federation de
Montreal are all equipped with safety devices to guard
against loss by theft as well as by loss of time.
Steps have been taken to provide the shareholders
with a reasonable degree of security for their savings
entrusted to them.

At the administrative level protection of
the shareholders is assured by the bill in internal
controls of the Caisse as this was explained previously.
In this matter, in addition, the Caisse holds a
insurance policy with full coverage of all types of
and theft and also to cover other responsibilities.

Characteristics
We now have a better understanding of the
essential characteristics of the Caisse Populaire
in regard to its constitution, method of operation,
and the objectives which are pursued. The interest is
primarily a group of individuals who wish to help
themselves in an economical and social manner. To



1 Each Caisse Populaire, an association of
2 persons and not of capital, has its own separate
3 entity and its activities are actually restricted to
4 a territory which has been determined in accordance
5 with the Statute. The structure of the Caisse is
6 essentially based on the function of service to the
7 members. This is the basis of this unique characteristic;
8 one man, one vote. For the same reason vote by proxy
9 is not allowed.

10 A co-operative syndicate, the Caisse
11 Populaire, deals only with its members and the operations
12 are mainly in the field of savings and credit. Credit
13 is available to its members in the form of personal
14 loans and of hypothec loans. Special emphasis is put
15 on the moral character of the borrower. The Caisse
16 does not provide loans when the collateral is a sales
17 contract or a discounted note.

18 The shareholders do benefit from one
19 additional service, and that is the withdrawal of savings
20 by orders of payment. Data gives evidence that less
21 than one withdrawal cheque a month is made by a
22 majority of shareholders, (see statistics of the Caisses
23 on page 12 of the supplement to this brief). It should
24 be noted that the statistics apply only to the Caisses
25 affiliated in the Federation de Montreal and it should
26 be further noted that these Caisses are all located
27 in the largest metropolitan area of Canada. In these
28 circumstances, it is quite evident that the rate of
29 turnover of savings in the Caisses is not even remotely
30 comparable to the volume of cheques drawn on banks.



Each Calase Populaire, an association of

persons and not of capital, has its own separate entity and its activities are actually restricted to a territory which has been determined in accordance with the Statute. The structure of the Calase is essentially based on the function of service to the members. This is the basis of this unique characteristic: one man, one vote. For the same reason vote by proxy is not allowed.

A co-operative syndicate, the Calase

Populaire, deals only with its members and the operations are mainly in the field of savings and credit. Credit is available to its members in the form of personal loans and of hypothec loans. Special emphasis is put on the moral character of the borrower. The Calase does not provide loans when the collateral is a value contract or a discounted note.

The shareholders do benefit from one

additional service, and that is the withdrawal of savings by orders of payment. Data gives advance that less than one withdrawal cheque a month is made by a majority of shareholders, (see statistics of the Calases on page 12 of the supplement to this report). It should be noted that the statistics apply only to the Calases affiliated to the Federation de Montreal and its branches. He further noted that these Calases are all located in the largest metropolitan area of Canada. In these



1 We have taken a great deal of time to
2 explain that the Caisse Populaire has been formed
3 without profit motives and that its operations are
4 undertaken for the sole benefit of its shareholders
5 in the form of interest, bonuses and rebates on loans,
6 all subject to personal income taxation. Furthermore,
7 the shares which have a fixed value of \$5.00 are not
8 subject to any fluctuation. This means that a share-
9 holder who has one or many shares in the organization
10 cannot speculate on the possibility of making non-
11 taxable capital gains. The main difference between
12 the Caisse and other financial institutions is the fact
13 that the Caisse is a plan formulated on the basis of
14 providing the best service for the individual and
15 his family within the parish level, whereas other
16 institutions are primarily interested in Commerce
17 and Industry.

18 4. Federation

19 The federation is an organization which
20 was formed by the Caisses Populaires in order to provide
21 a coordinating body for them in their operations. While
22 each Caisse preserves its autonomy within the chapter,
23 the federation does provide the guidance insofar as is
24 applicable to the operations of co-operative syndicates;
25 and further, it is in a position to keep abreast of
26 important developments in the co-operative field.

27 The Federation de Montreal des Caisses Desjardins,
28 was founded on November 13, 1945, and at the origin,
29 it involved eight Caisses Populaires. The federation
30 now counts a total of twenty-two Caisses, all situated

We have taken a great deal of time to explain that the Calase Populaire has been formed without profit motives and that its operations are undertaken for the sole benefit of its shareholders in the form of interest, bonuses and rebates on loans, all subject to personal income taxation. Furthermore, the shares which have a fixed value of \$5.00 are not subject to any fluctuation. This means that a shareholder who has one or many shares in the organization cannot speculate on the possibility of making non-taxable capital gains. The main difference between the Calase and other financial institutions is the fact that the Calase is a plan formulated on the basis of providing the best service for the individual and his family within the parish level, whereas other institutions are primarily interested in Commerce and Industry.

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now counts a total of twenty-two Calases, all situated in the Montreal area. The Federation



1 within the diocese of Montreal, with a total of
2 assets of \$58,411,493.97. Please refer to statistics
3 on pages 2 and 3 of the supplement.

4 (a) Organization and Structure

5 The regulations provide for three principal
6 bodies in the structure of the federation.

7 Firstly, the Caisses within the federation
8 nominate delegates which form the Congress. This
9 congress plays a similar role to the annual meeting
10 for the individual Caisses, being composed of delegates
11 of all affiliates. The administration of the federation
12 is controlled by the Central Committee, and this
13 Committee is composed of nine members elected by the
14 congress on a simple majority for a period of three
15 years. Article 29 of the regulations of the Federation
16 de Montreal des Caisses Desjardins describes the powers
17 of the central committee.

18 In order to assure that the decisions taken
19 by the central committee are properly carried out,
20 this committee selects, from within its ranks,
21 an Executive Committee which comprises a president,
22 vice-president, secretary-general, and two other members,
23 all of whom are nominated for a period of one year.

24 (b) Activities and Aims

25 To achieve its aims, the federation performs
26 many tasks and initiates various undertakings,
27 particularly those of assisting and counselling the
28 committees operating in the Caisses to perform their
29 tasks with efficiency. Another important role of the
30 federation is to enlarge upon the achievements of the



Within the scope of Montreal, with a total of
assets of \$58,411,408.97. Please refer to statistics
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[Redacted text]

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particularly those of financing and counselling the
committees operating in the Caisses to perform their
tasks with efficiency. Another important role of the



1 Caisses Populaires through a planned programme of
2 public relations and information. The federation also
3 carries on a training programme for managers and
4 members of the various committees within the Caisse.
5 This is achieved by providing text-books, manuals,
6 and operational circulars; by organizing lectures and
7 study groups, so as to propagate sound principles
8 of efficient administration.

9 One of the principal functions of the federation
10 is to provide a complete inspection service which permits
11 it to verify the operations of each individual Caisse.
12 A team of auditors under the direction of the secretary-
13 general of the federation is responsible for accomplish-
14 ing this task.

15 Each year, the inspection programme is completely
16 reviewed in order to make any changes considered
17 necessary to promote a more efficient system; moreover,
18 the members of the inspection team are rotated in order
19 to assure that verification is carried out in the most
20 thorough manner. Once an inspection has been completed,
21 a written report is prepared and this is forwarded
22 to the chairman of the Caisse concerned. A copy of
23 this report is also forwarded to the members of the
24 Board of Directors and credit and supervisory committees.
25 The chief inspector for the federation prepares a
26 monthly report in which he cites any discrepancies
27 which have come to light as a result of inspections
28 carried out by his staff, and this matter is then taken
29 up by the central committee of the federation in order
30 to decide on adequate measures to be taken to rectify



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1 these discrepancies.

2 The federation has an arrangement with the
3 Banque Provinciale du Canada to provide the clearing
4 of shareholders' orders of payments for all the Caisses
5 who form part of the organization. All Caisses affiliated
6 may call on the federation when they have special
7 problems that need the assistance of administrative,
8 legal or accounting experts.

9 (c) Financial Arrangements

10 In order to cover the costs of the various
11 services which have been described and performed by
12 the federation, it has set up two distinct funds, built
13 up, one by term deposits, and the other by demand
14 deposits.

15 Article 20 of the regulations of the federation
16 provide for the constitution of these two funds, as
17 follows:

18 Article 20:

19 (The substance being):

20 "Fonds a terme" receives term deposits
21 equal to 3 per cent of deposit liabilities of
22 affiliated Caisses at November 30 preceding year;
23 these deposits are not withdrawable, except for yearly
24 adjustment, are invested up to 50 per cent in market-
25 able securities and up to 50 per cent in mortgages.
26 They accrue interest at the rate of $2\frac{1}{2}$ per cent. This
27 fund, together with an annual assessment on affiliated
28 Caisses, pays for the inspection, education and
29 secretariat services of the federation; yearly,
30 deficits or surpluses of the fund are taken care of by



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 Banque Provinciale du Canada to provide the clearing
 of shareholders' orders of payments for all the Caisses
 who form part of the organization. All Caisses affiliated
 may call on the Federation when they have special
 problems that need the assistance of administrative,

(b) Financial Arrangements

In order to cover the costs of the various
 services which have been described and performed by
 the Federation, it has set up two distinct funds, built
 up, one by term deposits, and the other by demand

Article 90 of the regulations of the Federation
 provide for the constitution of those two funds, as
 follows:

Article 90:

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 "Fonds a terme" - deposits term deposits
 equal to 3 per cent of deposit liabilities of
 affiliated Caisses as November 30 preceding year;
 these deposits are not withdrawable except for yearly
 adjustment, are invested up to 50 per cent in mortgage
 and up to 50 per cent in mortgages.
 They also interest at the rate of 5 per cent. This
 fund, together with an equal amount of contribution
 pays for the inspection, education and



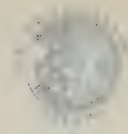
1 a rebate of assessment or an additional assessment,
2 prorated on the basis of the average total assets of
3 each affiliate.

4 The "fonds a vue" receives demand deposits
5 of affiliated Caisses, being their surplus cash,
6 with balance at least sufficient to cover their daily
7 clearings, and are invested in marketable securities.
8 They also accrue interest at the rate of $2\frac{1}{2}$ per cent.
9 This fund pays for the expenses of the clearing
10 operations. Yearly, deficits or surpluses are taken
11 care of by rebates or special assessment, prorated
12 on the basis of the total number of items cleared
13 on behalf of each affiliate.

14 The assets of the "fonds a terme" may be
15 pledged as security for borrowings required in the
16 operations of the "fonds a vue".

17 Capital gains of both funds are not included
18 in operations but directly affected to "securities
19 valuation reserve", each affiliated Caisse however,
20 being credited with its proportionate share of such
21 reserve.

22 The main difference between the Federation
23 de Quebec des Unions Regionales des Caisses Populaires
24 Desjardins, and the Federation de Montreal des Caisses
25 Desjardins is that the Montreal federation does not
26 accumulate any reserve fund and that it performs
27 its services on an actual cost basis. Any surplus
28 resulting from the operations are returned to the
29 various Caisses affiliated to the federation and are
30 pro-rated in accordance with their participation in



...of assessment on an additional assessment,
proposed on the basis of the average value of the

of affiliated business, being the average value,
with balance at least sufficient to cover those items,
clearing, and are directed in making this assessment.
They also receive interest at the rate of 2 1/2 per cent.
Total time pays for the expense of the clearing
operations. Finally, before of business and lower
rate of by reason of special assessment, proposed
on the basis of the value of the property
on behalf of each affiliate.

The purpose of this "local" assessment is to
pledge as security for the business operations of the
operations of the "local" affiliate.
Detailed list of all items are not included
in operations for direct or indirect
valuation purposes, each affiliate is required to
being provided with the proper records and to

The local affiliate, and the local affiliate
to which the local affiliate has been assigned
operations, and the local affiliate has been assigned
operations is made the normal operations of the
operations and the local affiliate has been assigned
the services of the local affiliate and the local
operations. The local affiliate has been assigned
various other operations of the local affiliate and the
operations of the local affiliate are not included in



1 in the various funds.

2 Summary

3 The Caisses Populaires play an important
4 role in the lives of all individuals making up their
5 membership.

6 The activities of these institutions
7 supplement those of the banks whose primary aims are
8 the promotion of commerce and industry. These two
9 organizations complement each other and both perform
10 a necessary function in our society. When each one
11 remains in its field of activity and restricts itself
12 to the type of customers assigned to it by its structure
13 and its Act, there should not be any competition; all
14 to the contrary, these two organizations complement
15 each other and this should be beneficial to the nation.

16
17 THE BANKS HAVE AN INTEREST IN THE EXISTENCE
18 OF CAISSES POPULAIRES.

19 THE CAISSES POPULAIRES HAVE AN INTEREST
20 IN THE EXISTENCE OF THE BANKS.

21 THE GENERAL PUBLIC HAS A NEED FOR BOTH OF
22 THESE INSTITUTIONS.
23
24
25
26
27
28
29
30



In the various fields.

The National Industries play an important role in the lives of all individuals making up their

The activities of these organizations supplement those of the banks whose primary aim is the promotion of commerce and industry. These two organizations complement each other and both perform a necessary function in our life. When each one remains in the field of activity and resistance is left to the type of business engaged in it, its contribution and the Act, there should be no competition. All to the contrary, these two organizations complement each other and this should be maintained in the future.

THE BANKS HAVE AN INTEREST IN THE EXISTENCE OF CITIES POPULATED.

THE CITIES POPULATED HAVE AN INTEREST IN THE EXISTENCE OF THE BANKS.

THE FEDERAL RESERVE HAS A RIGHT TO KNOW OF



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FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Société régie par la Loi des Syndicats
coopératifs de Québec

1681, rue Parc Lafontaine

MONTREAL

STATISTIQUES DES CAISSES AFFILIEES

PRESENTEES A LA COMMISSION ROYALE D' ENQUETE

SUR LE SYSTEME BANCAIRE ET FINANCIER

MONTREAL, le 13 avril 1962 -



Nethercut & Young

Toronto, Ontario

A1568

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1.- Classification des Caisses selon leur actif au 31 décembre:

<u>1950</u>	Nombre de Caisses (1)	Nombre de sociétaires (2)	Actif total (3)	% de l'actif en placements (4)	% de l'actif en prêts (5)
<u>Caisses rurales:</u>					
(1) Moins de \$500,000 -	<u>2</u>	<u>1,638</u>	<u>\$ 648,682.09</u>		
(5) Sous-total -	<u>2</u>	<u>1,638</u>	<u>648,682.09</u>		
<u>Caisses urbaines:</u>					
(6) Moins de \$500,000 -	<u>3</u>	<u>2,202</u>	<u>872,512.91</u>		
(7) 500,000 - 1,000,000 -	<u>2</u>	<u>3,149</u>	<u>1,349,492.29</u>		
(8) 1,000,000 - 5,000,000 -	<u>3</u>	<u>11,834</u>	<u>7,707,170.40</u>		
(10)Sous-total	<u>8</u>	<u>17,185</u>	<u>9,929,175.60</u>		
(11)Total (5)+(10)	<u>10</u>	<u>18,823</u>	<u>10,577,857.69</u>		
<u>1955</u>					
<u>Caisses rurales:</u>					
(1) Moins de \$500,000 -	<u>1</u>	<u>700</u>	<u>263,786.61</u>		
(2) 500,000 - 1,000,000 -	<u>1</u>	<u>1,309</u>	<u>850,712.72</u>		
(5) Sous-total	<u>2</u>	<u>2,009</u>	<u>1,114,499.33</u>		
<u>Caisses urbaines:</u>					
(6) Moins de \$500,000 -	<u>6</u>	<u>3,005</u>	<u>1,194,254.20</u>		
(7) 500,000 - 1,000,000 -	<u>0</u>	<u>0</u>	<u>0</u>		
(8) 1,000,000 - 5,000,000 -	<u>5</u>	<u>7,499</u>	<u>14,046,557.52</u>		
(9) 5,000,000 - et plus	<u>1</u>	<u>17,708</u>	<u>7,183,951.32</u>		
(10)Sous-total	<u>12</u>	<u>28,212</u>	<u>22,424,763.04</u>		
(11)Total (5)+(10)	<u>14</u>	<u>30,221</u>	<u>23,539,262.37</u>		
<u>1960</u>					
<u>Caisses rurales:</u>					
(1) Moins de \$500,000 -	<u>1</u>	<u>650</u>	<u>427,400.44</u>	<u>25.3%</u>	<u>64.8%</u>
(2) 1,000,000 - 5,000,000 -	<u>1</u>	<u>1,616</u>	<u>1,202,869.18</u>	<u>31.8%</u>	<u>58.5%</u>
(5) Sous-total	<u>2</u>	<u>2,266</u>	<u>1,630,269.62</u>		
<u>Caisses urbaines:</u>					
(6) Moins de \$500,000 -	<u>7</u>	<u>2,827</u>	<u>1,047,468.81</u>	<u>32.1%</u>	<u>40.3%</u>
(7) 500,000 - 1,000,000 -	<u>4</u>	<u>4,755</u>	<u>2,725,597.28</u>	<u>32.1%</u>	<u>48.5%</u>
(8) 1,000,000 - 5,000,000 -	<u>5</u>	<u>16,931</u>	<u>12,455,327.39</u>	<u>32.0%</u>	<u>54.7%</u>
(9) 5,000,000 - et plus	<u>4</u>	<u>29,985</u>	<u>32,691,539.46</u>	<u>38.9%</u>	<u>50.2%</u>
(10)Sous-total	<u>20</u>	<u>54,498</u>	<u>48,919,932.94</u>		
(11)Total (5)+(10)	<u>22</u>	<u>56,764</u>	<u>50,550,202.56</u>		



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FEDERATION DE MONTREAL DES CAISSES DESJARDINS

11.- Bilan:

Actif:

Encaisse:

(12) Argent en mains	\$ 260,213.36	\$				\$	542,218.18	\$	565,711.15
(13) Dépôts aux banques	205,265.47						149,345.08		200,181.40
(14) Dépôts à la Fédération	910,730.68						3,666,500.13		4,295,039.49
(15) Autres Dépôts	40,850.62						99,050.25		113,389.07
(16) Total (12)+(13)+(14)+(15)	1,417,060.13		1,668,219.21		2,324,038.68		2,862,440.88		3,797,982.11
							4,457,113.64		5,174,321.11

Placements:

(17) Fonds à Terme à la Fédération	516,500.00	623,844.35	734,444.35	833,155.00	1,067,450.00	1,176,950.00	1,327,250.00
(17A) Réserve de sécurité de placements	9,089.37	9,089.37	9,089.37	9,089.37	12,967.13	17,053.67	67,665.23
(17B) Parts sociales dans d'autres institutions coopératives	3,730.00	3,165.00	3,175.00	3,180.00	4,181.00	4,181.00	6,681.00
(23)+(28) Obligations publiques	8,798,192.45	9,737,948.97	10,907,565.76	14,301,609.68	14,221,675.58	17,150,921.00	18,901,052.40
(29) Total	9,327,511.82	10,374,047.69	11,654,274.48	13,447,034.05	15,306,273.71	18,349,105.67	20,302,648.63

Prêts:

(33) Aux sociétés	896,235.33	1,017,364.85	1,243,389.85	1,405,196.48	1,634,635.41	2,490,442.63	3,121,143.39
(35) Municipalités et Comm. scolaires	44,000.00	151,800.00	247,600.00	374,680.20	221,403.16	232,841.09	448,203.51
(36) Communautés religieuses et fabriques	45,000.00	33,000.00	50,800.00	97,400.00	72,300.00	81,892.37	151,706.97
(37) Coopératives		5,005.00	5,005.00	5,205.00	5,005.00	35,638.85	
(39) Sous-total (35)+(36)+(37)	89,000.00	189,805.00	303,405.00	477,085.20	298,708.16	350,372.31	599,910.48
(40) Total (33)+(39)	985,235.33	1,207,169.85	1,546,794.85	1,882,281.68	1,933,343.57	2,840,814.94	3,721,053.87
(46) Hypothèques	11,171,448.97	13,254,567.57	15,219,105.04	18,977,711.73	21,907,790.60	23,162,081.94	27,339,576.31
Total (40)+(46)	12,156,684.30	14,461,737.42	16,765,899.89	20,859,993.41	23,841,134.17	26,002,896.88	31,060,630.18
(47) Immobilisations	637,089.46	975,185.51	1,315,877.03	1,399,599.23	1,635,896.31	1,725,731.17	1,846,608.78
(48) Autres actifs	916.66	6,509.58	7,396.21	8,421.87	10,778.35	15,355.20	27,285.27
(49) Total de l'actif (16)+(29)+(40)+(46)+(47)+(48)	23,539,262.37	27,485,699.41	32,067,486.29	40,277,489.44	44,592,064.65	50,550,202.56	58,411,493.97



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A1570

FEDERATION DE MONTREAL DES CAISSES DES JARDINS

11.- Bilan:

Passif:

(50) Capital Social	\$ 1,436,722.79	\$1,686,944.66	\$2,120,276.16	\$2,591,660.54	\$3,019,574.31	\$3,464,438.18	\$4,075,702.70
(51) Epargne	20,611,833.82	23,972,506.57	27,945,296.37	35,056,765.22	38,628,712.18	41,823,522.98	46,994,739.30
(53) Epargne spéciale	20,611,833.82	23,972,506.57	27,945,296.37	35,056,765.22	38,628,712.18	41,823,522.98	46,994,739.30
(54) Sous-total (51)+(53)	50,000.00	103,000.00	200,000.00	30,000.00	30,000.00	1,881,352.90	3,243,103.07
(61) Emprunts de banques	50,000.00	103,000.00	200,000.00	30,000.00	30,000.00	43,704,875.88	50,237,842.37
(62) Autres emprunts	50,000.00	103,000.00	200,000.00	30,000.00	30,000.00	6,000.00	6,000.00
(63) Sous-total (61)+(62)	50,000.00	103,000.00	200,000.00	30,000.00	30,000.00	6,000.00	6,000.00
(66) Autres passifs #	26,205.19	50,016.75	43,074.99	48,101.58	48,346.50	104,096.93	118,024.52
(67) Total du passif: (50)+(54)+(63) + (66)	22,124,761.80	25,812,467.98	30,108,647.52	37,931,527.34	41,751,632.99	47,279,410.99	54,437,569.59

Valeur Nette:

(64) Excédents non distribués	262,391.24	330,375.77	337,919.52	477,156.70	583,323.66	622,852.29	774,177.98
(65) Réserves #	1,152,109.33	1,342,855.66	1,620,919.25	1,868,805.40	2,257,108.00	2,647,939.28	3,199,746.40
(67A) Total de la Valeur Nette	1,414,500.57	1,673,231.43	1,958,838.77	2,345,962.10	2,840,431.66	3,270,791.57	3,973,924.38
(67B) Total du Passif et de la Valeur Nette (67)+(67A)	23,539,262.37	27,485,699.41	32,067,486.29	40,277,489.44	44,592,064.65	50,550,202.56	58,411,493.97

Fonds de pension et fonds d'éducation - /

Fonds de réserve, de prévoyance, de surplus et réserve de sécurité de placements -



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A1571

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Etat des revenus et dépenses (à la fin de l'année sociale de chaque caisse)

REVENUS:	1950	1955	1960
(68) Intérêts sur prêts aux sociétaires (rec. de dettes, hypothèques et placements hypothèques)	\$240,519.42	\$527,134.33	\$1,558,159.11
(69) Intérêts s/obligations et profit de capital	147,775.78	252,489.11	664,396.49
(70) Frais de service (administration)	2,193.14	9,642.44	34,614.60
(71) Comm. s/chèques, chèques retournés, échange...	2,535.71	7,049.27	26,259.12
(71A) Intérêts reçus de la Fédération	8,648.06	20,781.88	55,918.26
(71B) Ristournes reçues de la Fédération	3,583.71	10,795.74	29,187.53
(72) Autres revenus	<u>19,595.22</u>	<u>41,418.84</u>	<u>127,287.91</u>
(73) Total des revenus	<u>424,851.04</u>	<u>869,311.61</u>	<u>2,495,823.02</u>
DEPENSES:			
(74) Salaires et boni	51,235.39	112,548.69	322,145.65
(75) Dépenses administratives	49,140.23	125,407.22	363,811.67
(75A) Propagande et éducation	<u>542.10</u>	<u>2,212.93</u>	<u>16,258.11</u>
(76) Sous-total (74)+(75)+(75A)	<u>100,917.72</u>	<u>240,168.84</u>	<u>702,215.43</u>
(77) Intérêts s/épargne	174,955.25	387,268.27	1,139,236.35
(78) Boni s/capital social	33,410.01	60,548.00	160,474.35
(78A) Ristournes aux emprunteurs	<u>7,028.97</u>	<u>11,524.60</u>	<u>41,402.63</u>
(79) Sous-total (77)+(78)+(78A)	<u>215,394.23</u>	<u>459,340.87</u>	<u>1,341,113.33</u>
(80) Avoir propre (réserves + surplus)	<u>108,539.09</u>	<u>169,801.90</u>	<u>452,494.26</u>
Total (76)+(79)+(80)	<u>424,851.04</u>	<u>869,311.61</u>	<u>2,495,823.02</u>



	1980	1981	1982
(68) Intérêts sur prêts aux associations (rec. de dettes, hypothèques et placements hypothéqués)	147,775.78	282,488.11	
(69) Intérêts s'obligations et profit de capital	2,835.71	7,044.27	52,280.12
(70) Frais de service (administration)	2,648.00	20,781.88	32,918.20
(71A) Intérêts reçus de la Fédération			
(71B) Ressources reçues de la Fédération			
(72) Total des revenus	153,259.49	310,314.26	85,208.32
(73) Solaires et bonif	11,230.39	115,544.80	222,745.49
(74) Dépenses administratives	40,140.23	129,407.22	303,811.67
(75) Propagande et éducation	242.10	2,212.23	16,758.11
(76) Sous-total (73)+(74)+(75)	51,612.72	247,164.25	543,315.27
(77) Intérêts s'épargne			
(78) Bond s'capital social			
(79) Ressources aux emprunts	11,024.37	11,524.90	31,004.73
(80) Sous-total (77)+(78)-(79)	211,384.23	459,340.97	1,384,113.23
(81) Avoir propre (réserves + surplus)	108,230.22	109,801.22	428,404.26
Total (76)+(79)+(80)	271,227.14	616,306.44	1,352,122.79



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A 1572

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ENCAISSE

1955

Mars

Juin

Sept.

Déc.

(12) Argent en mains				260,213.36
(13) Dépôts aux banques				205,265.47
(14) Dépôts à la Fédération				910,730.68
(15) Autres dépôts				40,850.62
(16) Total	1,762,632.00	2,090,097.64	1,821,742.99	1,417,060.13

1956

(16) Total	1,919,794.17	1,691,305.12	1,669,206.20	1,668,219.21
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1957

(16) Total	2,026,671.29	1,935,756.79	2,053,007.72	2,324,038.68
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1958

(16) Total	3,045,997.61	3,119,577.06	3,733,934.48	2,862,440.88
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1959

(16) Total	3,625,057.42	3,172,664.13	3,120,362.71	3,797,982.11
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1960

(12) Argent en mains				542,218.18
(13) Dépôts aux banques				149,345.08
(14) Dépôts à la Fédération				3,666,500.13
(15) Autres dépôts				99,050.25
(16) Total	4,188,212.85	4,869,177.74	4,310,857.55	4,457,113.64

1961

(12) Argent en mains				565,711.15
(13) Dépôts aux banques				200,181.40
(14) Dépôts à la Fédération				4,295,039.49
(15) Autres dépôts				113,389.07
(16) Total	4,777,356.74	5,176,342.10	5,419,061.19	5,174,321.11



(3) Dépôts aux banques
(4) Dépôts à la Trésorerie
(5) Autres dépôts

1957
1958
1959
1960
1961

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A1573

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Analyse du portefeuille des Caisses:

Placements:

	1955	1956	1957	1958	1959	1960	1961
(17) Fonds à Terme à la Fédération	\$516,500.00	\$623,844.35	\$ 734,444.35	\$ 833,155.00	\$ 1,067,450.00	\$ 1,176,950.00	\$ 1,327,250.00
(17A) Réserve de sécurité de placements	9,089.37	9,089.37	9,089.37	9,089.37	12,967.13	17,053.67	67,665.23
(17B) Parts sociales dans d'autres institutions coopératives	3,730.00	3,165.00	3,175.00	3,180.00	4,181.00	4,181.00	6,681.00

Gouv. du Canada et garanties par le Gouv. du Canada:

(18) Bons du Trésor	\$ 100,000.00	\$ 120,000.00	\$ 175,000.00	\$ 221,000.00
(19) Autres	411,950.00	581,000.00	203,100.00	820,150.00
(20) 0 - 2 ans	607,750.00	156,400.00	41,450.00	13,050.00
(21) 3 - 5 ans	575,600.00	5,000.00	10,450.00	185,900.00
(22) 6 - 10 ans	190,000.00	1,554,300.00	1,566,400.00	1,615,300.00
(23) 11 - et plus	1,885,300.00	1,844,200.00	2,319,300.00	2,659,150.00
(23) Sous-total (18)+(19)+(20)+(21)+(22)				
(24) Gouv. provincial et garanties par le Gouv. provincial	1,723,925.00	2,578,725.00	2,000,800.00	2,427,000.00
(25) Municipales et scolaires	5,320,500.00	7,221,700.00	7,320,200.00	9,238,500.00
(26) Religieuses et autres institutions sans but lucratif	1,541,750.00	1,896,950.00	1,857,850.00	2,234,550.00
(27) Autres corporations canadiennes	568,000.00	771,000.00	855,444.00	849,863.00
(28) Sous-total (24)+(25)+(26)+(27)	9,154,175.00	12,468,375.00	12,034,294.00	14,749,913.00
(29) Total (23)+(28)	11,039,475.00	14,312,575.00	14,353,594.00	17,248,313.00
Valeur aux livres	10,907,565.76	14,301,609.68	14,221,675.58	17,150,921.00



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A1574

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Reconnaisances de dettes:

	<u>1955</u>	Mars	Juin	Sept.	Déc.
(33) Aux sociétaires		\$ 853,845.47	\$ 880,724.25	\$ 926,603.65	\$ 896,235.33
(35) Municipalités et comm.scolaires		30,000.00	13,000.00	25,000.00	44,000.00
(36) Comm.religieuses et fabriques		51,000.00	48,000.00	48,000.00	45,000.00
(37) Coopératives		---	---	---	---
(39) Sous-total (35)+(36)+(37)		81,000.00	61,000.00	73,000.00	89,000.00
(40) Total (33)+(39)		<u>934,845.47</u>	<u>941,724.25</u>	<u>999,603.65</u>	<u>985,235.33</u>
	<u>1956</u>				
(33) Aux sociétaires		947,814.22	1,072,025.10	1,058,613.86	1,017,364.85
(35) Municipalités et comm.scolaires		45,500.00	103,100.00	139,600.00	151,800.00
(36) Comm.religieuses et fabriques		43,000.00	43,000.00	39,000.00	33,000.00
(37) Coopératives		---	---	---	5,005.00
(39) Sous-total (35)+(36)+(37)		88,500.00	146,100.00	178,600.00	189,805.00
(40) Total (33)+(39)		<u>1,036,314.22</u>	<u>1,218,125.10</u>	<u>1,237,213.86</u>	<u>1,207,169.85</u>
	<u>1957</u>				
(33) Aux sociétaires		1,077,994.60	1,175,471.81	1,239,649.40	1,243,389.85
(35) Municipalités et comm.scolaires		121,600.00	89,400.00	166,900.00	247,600.00
(36) Comm.religieuses et fabriques		33,000.00	50,000.00	50,000.00	50,800.00
(37) Coopératives		---	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)		154,600.00	144,405.00	221,905.00	303,405.00
(40) Total (33) + (39)		<u>1,232,594.60</u>	<u>1,319,876.81</u>	<u>1,461,554.40</u>	<u>1,546,794.85</u>
	<u>1958</u>				
(33) Aux sociétaires		1,202,210.24	1,264,057.93	1,305,826.63	1,405,196.48
(35) Municipalités et comm.scolaires		188,300.00	99,761.80	227,776.80	374,680.20
(36) Comm.religieuses et fabriques		78,800.00	74,741.40	99,441.40	97,400.00
(37) Coopératives		5,005.00	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)		272,105.00	179,508.20	332,223.20	477,085.20
(40) Total (33)+(39)		<u>1,474,315.24</u>	<u>1,443,566.13</u>	<u>1,638,049.83</u>	<u>1,882,281.68</u>
	<u>1959</u>				
(33) Aux sociétaires		1,513,722.45	1,615,861.59	1,632,974.03	1,634,635.41
(35) Municipalités et comm.scolaires		256,800.00	220,898.80	226,898.80	221,403.16
(36) Comm.religieuses et fabriques		75,800.00	76,064.44	70,137.34	72,300.00
(37) Coopératives		5,005.00	5,005.00	5,005.00	5,005.00
(39) Sous-total (35)+(36)+(37)		337,605.00	301,968.24	302,041.14	298,708.16
(40) Total (33)+(39)		<u>1,851,327.45</u>	<u>1,917,829.83</u>	<u>1,935,015.17</u>	<u>1,933,343.57</u>



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A1575

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Reconnaissances de dettes (suite)

1960

	Mars	Juin	Sept.	Déc.
(33) Aux sociétaires	\$1,810,964.91	\$1,972,123.98	\$2,277,680.85	\$2,490,442.68
(35) Municipalités et comm.scolaires	252,978.29	220,950.00	288,850.00	232,841.09
(36) Comm.religieuses et fabriques	72,300.00	72,567.98	84,567.98	81,892.37
(37) Coopératives	5,005.00	5,005.00	5,005.00	35,638.85
(39) Sous-total (35)+(36)+(37)	330,283.29	298,522.98	378,422.98	350,372.31
(40) Total (33)+(39)	<u>2,141,248.20</u>	<u>2,270,646.96</u>	<u>2,656,103.83</u>	<u>2,840,814.94</u>

1961

(33) Aux sociétaires	2,647,973.69	2,745,529.26	2,865,736.68	3,121,143.39
(35) Municipalités et comm.scolaires	338,029.72	265,360.53	418,008.29	448,203.51
(36) Com.religieuses et fabriques	83,443.00	104,982.23	89,694.56	151,706.97
(37) Coopératives	---	---	---	---
(39) Sous-total (35)+(36)+(37)	421,472.72	370,342.76	507,702.85	599,910.48
(40) Total (33)+(39)	<u>3,069,446.41</u>	<u>3,115,872.02</u>	<u>3,373,439.53</u>	<u>3,721,053.87</u>

Hypothèques:

	Mars	Juin	Sept.	Déc.
(46) 1955	\$ 8,716,119.54	\$ 9,246,583.75	\$ 9,897,461.64	\$ 11,171,448.97
(46) 1956	11,434,600.43	12,216,557.73	12,916,803.02	13,254,567.57
(46) 1957	13,231,312.89	13,913,519.18	14,929,979.56	15,219,105.04
(46) 1958	15,680,131.55	16,781,916.98	18,077,732.64	18,977,711.73
(46) 1959	19,509,848.99	20,935,482.52	22,045,486.99	21,907,790.60
(46) 1960	21,644,222.45	21,980,229.20	22,494,649.55	23,162,081.94
(46) 1961	23,877,709.76	25,096,199.66	26,076,843.60	27,339,576.31



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A1576

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1955

Mars

Juin

Sept.

Déc.

(47) Immobilisations	\$ 527,240.90	\$ 592,287.47	\$ 618,616.34	\$ 637,089.46
(48) Autres actifs	<u>31,285.09</u>	<u>1,546.71</u>	<u>1,366.31</u>	<u>916.66</u>
(49) Total de l'actif	<u>20,744,606.24</u>	<u>21,531,518.32</u>	<u>22,457,254.58</u>	<u>23,539,262.37</u>

1956

(47) Immobilisations	651,962.21	747,756.04	855,727.64	975,185.51
(48) Autres actifs	<u>883.66</u>	<u>506.88</u>	<u>707.38</u>	<u>6,509.58</u>
(49) Total de l'actif	<u>24,937,983.22</u>	<u>26,018,663.67</u>	<u>26,899,290.40</u>	<u>27,485,699.41</u>

1957

(47) Immobilisations	1,101,197.07	1,228,656.97	1,288,049.33	1,315,877.03
(48) Autres actifs	<u>14,034.61</u>	<u>15,978.37</u>	<u>15,055.98</u>	<u>7,396.21</u>
(49) Total de l'actif	<u>28,139,088.40</u>	<u>29,490,388.61</u>	<u>30,916,050.91</u>	<u>32,067,486.29</u>

1958

(47) Immobilisations	1,319,966.04	1,355,779.57	1,367,393.04	1,399,599.23
(48) Autres actifs	<u>25,765.69</u>	<u>24,070.37</u>	<u>479.25</u>	<u>8,421.87</u>
(49) Total de l'actif	<u>34,506,548.91</u>	<u>36,974,163.75</u>	<u>39,279,351.81</u>	<u>40,277,489.44</u>

1959

(47) Immobilisations	1,485,781.47	1,496,312.13	1,578,654.62	1,635,896.31
(48) Autres actifs	<u>6,554.94</u>	<u>7,411.68</u>	<u>6,534.14</u>	<u>10,778.35</u>
(49) Total de l'actif	<u>42,307,308.82</u>	<u>44,337,335.90</u>	<u>45,085,576.90</u>	<u>44,592,064.65</u>

1960

(47) Immobilisations	1,659,715.57	1,677,795.81	1,704,997.50	1,725,731.17
(48) Autres actifs	<u>22,934.08</u>	<u>15,921.05</u>	<u>16,583.76</u>	<u>15,355.20</u>
(49) Total de l'actif	<u>45,942,249.17</u>	<u>47,994,202.92</u>	<u>49,163,274.99</u>	<u>50,550,202.56</u>

1961

(47) Immobilisations	1,732,265.79	1,774,189.23	1,790,066.41	1,846,608.78
(48) Autres actifs	<u>14,336.81</u>	<u>13,920.13</u>	<u>28,990.03</u>	<u>27,285.27</u>
(49) Total de l'actif	<u>53,125,445.10</u>	<u>55,840,318.30</u>	<u>58,233,253.64</u>	<u>58,411,493.97</u>



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FEDERATION DE MONTREAL DES CAISSES DESJARDINS

(à la fin de l'année sociale de chaque Caisse)

1956

(50) Retraits au capital social	\$ 93,000.00
(54) Retraits à l'épargne	48,186.500.00

1957

(50) Retraits au capital social	189,200.00
(54) Retraits à l'épargne	56,581,900.00

1958

(50) Retraits au capital social	154,700.00
(54) Retraits à l'épargne	68,900,000.00

1959

(50) Retraits au capital social	160,400.00
(54) Retraits à l'épargne	86,086,500.00

1960

(50) Retraits au capital social	229,000.00
(54) Retraits à l'épargne	105,410,000.00

1961

(50) Retraits au capital social	291,500.00
(54) Retraits à l'épargne	126,600,000.00



(1) La fin de l'année sociale est le 31/12

1999-2000	1999-2000	(50) Revenus au capital social (51) Revenus à l'épargne
1999-2000	1999-2000	(52) Revenus au capital social (53) Revenus à l'épargne
1999-2000	1999-2000	(54) Revenus au capital social (55) Revenus à l'épargne
1999-2000	1999-2000	(56) Revenus au capital social (57) Revenus à l'épargne
1999-2000	1999-2000	(58) Revenus au capital social (59) Revenus à l'épargne
1999-2000	1999-2000	(60) Revenus au capital social (61) Revenus à l'épargne



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A1578

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

<u>1955</u>	Mars	Juin	Sept.	Déc.
(61) Emprunts aux banques	\$ -	\$ -	\$ -	\$ 50,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	-	<u>50,000.00</u>
<u>1956</u>				
(61) Emprunts aux banques	-	-	3,000.00	103,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	<u>3,000.00</u>	<u>103,000.00</u>
<u>1957</u>				
(61) Emprunts aux banques	-	-	-	-
(62) Autres emprunts	-	-	-	-
(63) Total	-	-	-	-
<u>1958</u>				
(61) Emprunts aux banques	-	-	-	200,000.00
(62) Autres emprunts	-	-	60,000.00	35,000.00
(63) Total	-	-	<u>60,000.00</u>	<u>235,000.00</u>
<u>1959</u>				
(61) Emprunts aux banques	-	-	235,000.00	30,000.00
(62) Autres emprunts	75,000.00	75,000.00	75,000.00	25,000.00
(63) Total	<u>75,000.00</u>	<u>75,000.00</u>	<u>310,000.00</u>	<u>55,000.00</u>
<u>1960</u>				
(61) Emprunts aux banques	75,000.00	35,000.00	-	6,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	<u>75,000.00</u>	<u>35,000.00</u>	-	<u>6,000.00</u>
<u>1961</u>				
(61) Emprunts aux banques	6,000.00	6,000.00	6,000.00	6,000.00
(62) Autres emprunts	-	-	-	-
(63) Total	<u>6,000.00</u>	<u>6,000.00</u>	<u>6,000.00</u>	<u>6,000.00</u>



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A1579

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

PERTES SUR PRETS

PERTES SUR PLACEMENTS

Année	Nombre	Valeur	Année	Nombre	Valeur
1945	6	\$ 1,535.31	1959	2	\$ 9,128.00
1946	2	220.00	1961	22	3,782.47
1947	2	152.53			
1948	5	1,235.28			
1949	3	641.03			
1950	2	196.12			
1951	3	1,048.57			
1952	3	388.50			
1953	2	333.69			
1954	3	794.82			
1955	5	1,191.20			
1956	3	330.31			
1957	5	529.83			
1958	12	3,384.28			
1959	15	2,899.29			
1960	23	17,137.35			
1961	10	2,279.35			

11.- Répartition des comptes d'épargne le ou vers le 31 décembre 1961:

(compilation par sondage dans 16 Caisses)

		Nombre de comptes	Valeur totale des comptes
0	- 500	35,175	\$ 3,326,621.88
500	- 1000	4,890	3,448,851.08
1000	- 5000	9,903	21,050,694.68
5000	- 10000	812	5,305,954.60
10000	- 25000	241	3,340,254.66
25000	- et plus	60	2,969,464.11
		<u>51,081</u>	<u>\$39,441,841.01</u>

(compilation par sondage dans 12 Caisses)

Comptes ayant eu plus de 12 retraits au cours de 1961	11,280	\$ 8,179,047.63
Comptes ayant eu moins de 12 retraits au cours de 1961	32,928	29,344,015.28
	<u>44,208</u>	<u>\$37,523,062.91</u>



1961

1961

Année	Montant	Nombre	Valeur
1961	2,229.25	10	
1960	17,134.25	23	
1959	2,998.29	15	
1958	3,284.28	15	
1957	602.99	5	
1956	330.31	3	
1955	1,121.20	5	
1954	794.82	3	
1953	333.89	2	
1952	358.20	3	
1951	1,048.27	3	
1950	196.12	2	
1949	641.03	3	
1948	1,232.28	5	
1947	220.00	2	
1946	2,138.21	2	
1945			2,138.00

111. - Répartition des comptes d'épargne en cours le 31 décembre 1961

(comptabilisation par sondage dans 15 Caisses)

Montant	Nombre de	Valeur totale
0 - 500	35,175	2,228,021.98
500 - 1000	4,890	2,448,621.08
1000 - 2500	9,903	21,070,604.69
2500 - 10000	812	5,705,984.40
10000 - 25000	241	3,340,254.66
25000 - et plus	66	2,229,434.11
		<u>32,028,916.92</u>

(comptabilisation par sondage dans 15 Caisses)

Comptes ayant en plus de 15 recettes au cours de 1961	11,280	2,129,027.67
Comptes ayant en moins de 15 recettes au cours de 1961	82,928	29,904,019.25



Nethercut & Young

Toronto, Ontario

A1580

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Société régie par la Loi des Syndicats
coopératifs de Québec

1681, rue Parc Lafontaine

MONTREAL

STATISTIQUES DE LA FEDERATION DE MONTREAL
PRESENTEES A LA COMMISSION ROYALE D'ENQUETE
SUR LE SYSTEME BANCAIRE ET FINANCIER

MONTREAL, le 13 avril 1962 -



FEDERATION DE MONTREAL DES CAISSES D'EPARGNE

incorporée par la Loi des Sociétés
cooperatives du Québec

1861, rue Paro Lefontaine

MONTREAL

STATISTIQUES DE LA FEDERATION DE MONTREAL

ANNUAIRE 1962

sur le système bancaire et financier



FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1955

ACTIF:

Mars

Juin

Sept.

Déc.

Encaisse:

(13) Dépôts aux banques	\$ (52,457.90)	\$ 354,659.05	\$ (90,166.33)	\$ 96,320.50
(14) Autres dépôts	63,430.60	84,020.12	72,656.42	16,431.84
	<u>10,972.70</u>	<u>438,679.17</u>	<u>(17,509.91)</u>	<u>112,751.84</u>

Placements:

17B) Parts sociales dans d'autres institutions coopératives	70.00	70.00	70.00	70.00
23)+(28) Obligations publiques	1,334,058.87	856,508.74	1,124,041.44	906,615.44
28A) Int. courus sur obligations	5,822.76	8,465.79	7,285.29	6,157.44
29) Total (17B)+(23+28)+(28A)	<u>1,339,951.63</u>	<u>865,044.53</u>	<u>1,131,396.73</u>	<u>912,842.58</u>

Prêts:

(35) Munic. & Comm. scolaires	10,000.00	10,171.23	---	---
(36) Comm. religieuses & fabriques	191,082.74	192,977.53	181,024.35	182,830.78
(40) Total (35)+(36)	<u>201,082.74</u>	<u>203,148.76</u>	<u>181,024.35</u>	<u>182,830.78</u>

(46) Hypothèques	229,054.97	222,129.93	220,456.27	206,522.17
(46A) Hypothèques réescomptées	28,925.00	34,550.00	34,550.00	34,550.00
(46B) Total (46)+(46A)	<u>257,979.97</u>	<u>256,679.93</u>	<u>255,006.27</u>	<u>241,072.17</u>

Total (40)+(46B)	459,062.71	459,828.69	436,030.62	423,902.95
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(47) Immobilisations	2,632.77	2,557.76	3,152.88	1,924.00
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(48) Autres actifs	1,638.52	1,638.52	3,578.73	1,239.95
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(49) Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	<u>\$1,814,258.33</u>	<u>\$1,767,748.67</u>	<u>\$1,556,649.05</u>	<u>\$1,452,661.32</u>
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PASSIF:

(51) Dépôts des Caisses	\$1,669,414.30	\$1,736,400.96	\$1,511,727.05	\$1,420,167.71
(61) Emprunt de banque	120,000.00	---	---	---

(64) Surplus	1,205.30	1,205.30	1,205.30	470.71
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(64A) Excédents de l'année en cours	11,394.85	11,518.66	21,510.28	19,100.76
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(65) Réserve de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
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(66) Autres passifs	3,154.51	6,822.01	10,404.68	2,514.15
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(69) Bénéfices de capital	---	2,712.37	2,712.37	1,318.62
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(67) Total du passif	<u>\$1,814,258.33</u>	<u>\$1,767,748.67</u>	<u>\$1,556,649.05</u>	<u>\$1,452,661.32</u>
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Nethercut & Young

Toronto, Ontario

A1582

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1956

6 ACTIVE:

Mars Juin Sept. Déc.

Encaisses:

(13) Dépôts aux banques	\$ 192,204.21	\$ (130,993.76)	\$ 100,747.24	\$ 281,747.54
(14) Autres dépôts	48,175.29	6,500.00	6,500.00	6,450.00
(16) Total (13)+(14)	240,379.50	(124,493.76)	107,247.24	288,197.54

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	70.00	75.00	75.00	75.00
(23 +28) Obligations publiques	1,026,434.74	1,162,584.74	1,057,084.74	899,980.94
(28A) Int.courus sur obligations	7,493.97	10,900.37	8,274.09	7,306.23
(29) Total (17B)+(23+28)(28A)	1,033,998.71	1,173,560.11	1,065,433.83	907,362.17

Prêts:

(33) Au personnel	---	---	---	110.00
(36) Comm.religieuses & fabriques	155,870.01	157,408.09	155,937.75	157,493.43
(40) Total (33)+(35)+(36)	155,870.01	157,408.09	155,937.75	157,603.43
(46) Hypothèques	204,481.22	186,069.45	198,657.85	196,257.73
(46A) Hypothèques réescomptées	34,350.00	43,900.00	61,900.00	52,700.00
(46B) Total (46)+(46A)	239,031.22	229,969.45	260,557.85	248,957.73
Total (40)+(46B)	394,901.23	387,377.54	416,495.60	406,561.16
(47) Immobilisations	2,700.97	5,914.02	6,327.14	4,903.41
(48) Autres actifs	2,016.04	3,733.69	10,246.55	22,686.86
(49) Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	\$1,673,996.45	\$1,446,091.60	\$1,605,750.36	\$1,629,711.14

PASSIF:

(51) Dépôts des Caisses	\$1,648,735.67	\$1,416,043.14	\$1,552,944.59	\$1,595,880.08
(54) Surplus	431.76	214.44	214.44	214.44
(54A) Excédents de l'année en cours	11,691.60	12,397.41	26,534.41	24,527.25
(55) Réserves de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
(56) Autres passifs	4,048.05	8,347.24	16,967.55	---
(57) Total du passif	\$1,673,996.45	\$1,446,091.60	\$1,605,750.36	\$1,629,711.14



Nethercut & Young

Toronto, Ontario

A1583

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1957

ACTIF:

Mars Juin Sept. Déc.

Encaisse:

(13) Dépôts aux banques	\$ 859,356.39	\$ 66,909.98	\$ 393,954.62	\$ 614,393.82
(14) Autres dépôts	6,760.18	31,607.85	2,097.24	19,319.28
(16) Total (13)+(14)	866,116.57	98,517.83	396,051.86	633,713.10

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00	75.00
(23+28) Obligations publiques	1,077,264.67	1,070,278.93	943,211.84	1,100,750.35
(28A) Int.courus sur obligations	7,029.76	8,824.73	7,162.19	4,316.12
(29) Total (17B)+(23+28)+(28A)	1,084,369.43	1,079,178.66	950,449.03	1,105,141.47

Prêts:

(33) Au personnel	110.00	55.00	55.00	55.00
(36) Comm.religieuses & fabriques	140,830.44	142,220.62	170,826.28	202,819.32
(40) Total (35)+(36)	140,940.44	142,275.62	170,881.28	202,874.32
(46) Hypothèques	192,493.98	220,193.70	216,524.54	221,449.51
(46A) Hypothèques réescomptées	40,400.00	41,200.00	41,200.00	40,360.00
(46B) Total (46)+(46A)	232,893.98	261,393.70	257,724.54	261,809.51
Total (40)+(46B)	373,834.42	403,669.32	428,605.82	464,683.83
(47) Immobilisations	8,221.51	7,298.78	10,166.63	21,594.96
(48) Autres actifs	42,542.01	9,166.97	1,558.50	45,536.64
(49) Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	\$2,375,083.94	\$1,597,831.56	\$1,786,831.84	\$2,270,670.00

PASSIF:

(51) Dépôts des Caisses	\$2,350,150.10	\$1,569,525.39	\$1,743,935.99	\$2,241,712.57
(64) Surplus	353.40	353.40	---	---
(64A) Excédents de l'année en cours	11,143.99	9,297.92	18,201.59	17,846.76
(65) Réserve de séc.de placements	9,089.37	9,089.37	9,089.37	9,089.37
(66) Autres passifs	4,347.08	9,565.48	15,604.89	2,021.30
Total du passif	\$2,375,083.94	\$1,597,831.56	\$1,786,831.84	\$2,270,670.00



Arthur & Young

Toronto, Ontario

A1584

FÉDÉRATION DE MONTRÉAL DES CAISSES DES JARDINS

1958

ACTIF:

Mars

Juin

Déc.

Encaisse:

(13) Dépôts aux banques	\$ 503,732.70	\$ 581,868.51	\$ 559,016.40
(14) Autres dépôts	2,470.78	3,248.02	48,608.18
(16) Total (13)+(14)	506,203.48	585,116.53	607,624.58

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00
(23+28) Obligations publiques	1,778,638.82	1,729,361.12	1,673,651.43
(28A) Int.courus sur obligations	9,270.29	16,583.98	18,006.63
(29) Total (17B)+(23+28)+(28A)	1,787,984.11	1,746,020.10	1,691,733.06

Prêts:

(33) Au personnel	55.00	---	851.85
(36) Comm.religieuses & fabriques	211,451.44	223,622.76	223,914.37
(40) Total (33)+(36)	211,506.44	223,622.76	224,766.22
(46) Hypothèques	236,565.30	269,747.19	272,984.68
(46A) Hypothèques réescomptées	37,092.00	28,125.00	21,458.99
(46B) Total (46)+(46A)	273,657.30	297,872.19	294,443.67
Total (40)+(46B)	485,163.74	521,494.95	519,209.89
(47) Immobilisations	18,791.06	18,586.48	20,038.96
(48) Autres actifs	3,631.61	13,285.30	11,722.17
(49) Total de l'actif (16)+(29)+(40)+(46B)+(47)+(48)	\$2,801,774.00	\$2,884,503.36	\$2,850,328.66

PASSIF:

(51) Dépôts des Caissees	\$2,771,853.26	\$2,831,314.98	\$2,780,527.52
(64) Surplus	952.61	952.61	682.89
(64A) Excédents de l'année en cours	14,242.88	12,840.28	25,341.79
(65) Réserve de séc.de placements	9,089.37	9,089.37	9,089.37
(66) Autres passifs	5,635.88	26,653.07	30,809.33
(69) Bénéfices de capital	---	3,653.05	3,877.76
Total du passif	\$2,801,774.00	\$2,884,503.36	\$2,850,328.66

N.B. Aucun bilan dressé pour le trimestre se terminant le 30 septembre 1958.



Nethercut & Young

Toronto, Ontario

A1585

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1959

ACTIF:

Jun

Sept.

Déc.

Encaisse:

(13) Dépôts aux banques	\$ (169,574.03)	\$ 338,400.52	\$ 521,081.31
(14) Autres dépôts	19,854.82	29,121.05	28,254.40
(16) Total (13)+(14)	(149,719.21)	367,521.57	549,335.71
(13A) Dépôts fixes aux banques	701,000.00	701,000.00	701,000.00

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00
(23+28) Obligations publiques	1,837,533.03	1,749,958.01	1,957,926.05
(28A) Int.courus sur obligations	17,627.48	17,894.18	23,338.28
(29) Total (17B)+(23+28)+(28A)	1,855,235.51	1,767,927.19	1,981,339.33

Prêts:

(33) Au personnel	312.85	165.00	1,542.50
(35) Munic. et commissions scolaires	91,905.75	91,915.62	81,814.80
(36) Comm.religieuses & fabriques	101,323.68	90,231.08	91,128.40
(40) Total (33)+(35)+(36)	193,542.28	182,311.70	174,485.70
(46) Hypothèques	264,392.61	258,184.21	251,839.42
(46A) Hypothèques réescomptées	10,405.00	10,150.00	67,395.00
(46B) Total (46)+(46A)	274,797.61	268,334.21	319,234.42
Total (40)+(46B)	468,339.89	450,645.91	493,720.12
(47) Immobilisations	36,261.79	39,610.92	41,973.94
(48) Autres actifs	23,244.95	21,213.40	17,438.10
(49) Total de l'actif (16)+(13A)+(29)+(40)+(46B)+(47)+(48)	\$2,934,362.93	\$3,347,918.99	\$3,784,807.20

PASSIF:

(51) Dépôts des Caisses	\$2,890,052.03	\$3,068,559.47	\$3,729,356.78
(61) Emprunt de banque	---	150,000.00	---
(64) Surplus	2,582.59	2,582.59	2,582.59
(64A) Excédents de l'année en cours	9,258.02	28,876.13	31,028.16
(65) Réserve de séc.de placements	12,967.13	12,967.13	12,967.13
(66) Autres passifs	17,354.16	82,627.17	4,786.00
(69) Bénéfices de capital	2,149.00	2,306.50	4,086.54
Total du passif	\$2,934,362.93	\$3,347,918.99	\$3,784,807.20

N.B. Aucun bilan dressé pour le trimestre se terminant le 31 mars 1959.



Nethercut & Young

Toronto, Ontario

A1586

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1960

ACTIF:

Mars

Juin

Sept.

Déc.

Encaisse:

(13) Dépôts aux banques	\$ 199,266.88	\$ 125,026.99	\$ 59,535.47	\$ (44,396.48)
(14) Autres dépôts	<u>24,682.31</u>	<u>73,079.20</u>	<u>117,213.87</u>	<u>(861.15)</u>
(16) Total (13)+(14)	223,949.19	198,106.19	176,749.34	(45,257.63)
(13A) Dépôts fixes aux banques	701,000.00	772,000.00	772,000.00	772,000.00

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	75.00	75.00
(23+28) Obligations publiques	2,919,327.95	3,184,865.81	2,675,542.81	3,131,094.02
(28A) Int.cours sur obligations	<u>26,889.18</u>	<u>29,949.15</u>	<u>33,428.10</u>	<u>30,196.76</u>
(29) Total (17B)+(23+28)+(28A)	2,946,292.13	3,214,889.96	2,709,045.91	3,161,365.78

Prêts:

(33) Au personnel	1,036.25	369.00	1,173.11	2,588.38
(36) Comm.religieuses & fabriques	<u>156,885.73</u>	<u>126,679.55</u>	<u>111,578.44</u>	<u>106,542.40</u>
(40) Total (33)+(35)+(36)	157,921.98	127,048.55	112,751.55	109,130.78
(46) Hypothèques	253,564.75	244,288.71	238,133.42	231,150.80
(46A) Hypothèques réescomptées	<u>40,665.00</u>	<u>40,683.68</u>	<u>39,280.76</u>	<u>38,680.75</u>
(46B) Total (46)+(46A)	294,229.75	284,972.39	277,414.18	269,831.55
Total (40)+(46B)	452,151.73	412,020.94	390,165.73	378,962.33
(47) Immobilisations	39,847.51	43,863.04	41,889.41	33,259.73
(48) Autres actifs	<u>20,842.15</u>	<u>13,568.96</u>	<u>57,940.81</u>	<u>20,850.60</u>
(49) Total de l'actif (16)+(13A)+(29)+(40)+(46B)+(47)+(48)	<u>\$4,384,082.71</u>	<u>\$4,654,449.09</u>	<u>\$4,147,791.20</u>	<u>\$4,321,180.81</u>

PASSIF:

(51) Dépôts des Caisses	\$4,333,842.11	\$4,593,745.66	\$4,041,464.31	\$4,207,992.18
(64) Surplus	2,636.11	2,636.11	2,636.11	2,636.11
(64A) Excédents de l'année en cours	8,947.16	22,047.53	41,603.60	35,582.29
(65) Réserve de séc.de placements	17,053.67	17,053.67	17,053.67	17,053.67
(66) Autres passifs	21,603.66	18,966.12	30,644.01	7,295.00
(69) Bénéfices de capital	---	---	<u>14,389.50</u>	<u>50,621.56</u>
Total du passif	<u>\$4,384,082.71</u>	<u>\$4,654,449.09</u>	<u>\$4,147,791.20</u>	<u>\$4,321,180.81</u>



Nethercut & Young

Toronto, Ontario

A1587

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

1961

ACTIF:

Mars

Juin

Sept.

Déc.

Encaisse:

(13) Dépôts aux banques	\$ 506,469.96	\$ 253,041.75	\$ (23,949.92)	\$ 315,628.11
(14) Autres dépôts	1,198.19	46,143.16	58,464.28	29,324.75
(16) Total (13)+(14)	507,668.15	299,184.91	34,514.36	344,952.86
(13A) Dépôts fixes aux banques	772,000.00	650,000.00	650,000.00	650,000.00

Placements:

(17B) Parts sociales dans d'autres institutions coopératives	75.00	75.00	85.00	85.00
(23+28) Obligations publiques	3,290,863.74	3,246,665.75	3,996,092.28	3,517,313.56
(28A) Int.courus sur obligations	36,259.25	36,774.21	50,716.53	38,633.67
(29) Total (17B)+(23+28)+(28A)	3,327,197.99	3,283,514.96	4,046,893.81	3,556,032.23

Prêts:

(33) Au personnel	1,818.15	2,919.96	2,700.70	3,747.63
(35) Munic.et commissions scolaires	---	---	24,676.14	96,521.42
(36) Comm.religieuses &fabriques	80,353.60	50,498.65	114,890.85	113,461.88
(40) Total (33)+(35)+(36)	82,171.75	53,418.61	142,267.69	213,730.93
(46) Hypothèques	175,020.40	169,138.13	165,572.22	154,101.30
(46A) Hypothèques réescomptées	38,853.64	43,928.57	54,714.83	53,667.56
(46B) Total (46)+(46A)	213,874.04	213,066.70	220,287.05	207,768.86
Total (40)+(46B)	296,045.79	266,485.31	362,554.74	421,499.79
(47) Immobilisations	37,487.53	37,085.24	38,017.65	30,613.54
(48) Autres actifs	24,676.72	32,955.33	30,009.35	25,952.88
(49) Total de l'actif (16)+(13A)+(29)+(40)+(46B)+(47)+(48)	\$4,965,076.18	\$4,569,225.75	\$5,161,989.91	\$5,029,051.30

PASSIF:

(51) Dépôts des Caisses	\$4,855,509.11	\$4,445,814.90	\$4,997,954.73	\$4,895,835.02
(64) Surplus	2,137.53	2,121.01	2,121.01	2,121.01
(64A) Excédents de l'année en cours	11,815.96	26,192.31	52,614.12	49,977.82
(65) Réserve de séc.de placements	67,665.23	67,665.23	67,665.23	67,665.23
(66) Autres passifs	25,993.95	25,147.75	37,353.82	5,070.27
(69) Bénéfices de capital	1,954.40	2,284.55	4,281.00	8,381.95
Total du passif:	\$4,965,076.18	\$4,569,225.75	\$5,161,989.91	\$5,029,051.30

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

Etat des revenus et dépenses

REVENUS:	1955	1956	1957	1958	1959	1960	1961
(68) Intérêts sur prêts	\$ 21,679.32	\$ 21,700.79	\$ 26,334.87	\$ 28,278.80	\$ 42,088.51	\$ 27,549.61	\$ 23,777.02
(69) Intérêts sur obligations et profits de capital	32,019.00	33,294.88	27,120.53	62,768.91	73,276.99	169,642.01	159,369.37
(71) Commissions	3,774.88	6,936.13	9,639.64	10,976.61	7,133.38	11,644.53	17,146.29
(72) Cotation et contribution	20,464.50	25,793.89	29,930.82	35,471.25	44,453.50	47,462.57	54,118.94
(72A) Autres	---	214.44	430.79	742.90	7,147.53	6,778.40	6,680.21
(73) Total des revenus	\$ 77,937.70	\$ 87,940.13	\$ 93,456.65	\$ 138,238.47	\$ 174,099.91	\$ 263,077.12	\$ 261,091.83
DEPENSES:							
(74) Salaires	\$ 15,399.48	\$ 17,553.88	\$ 22,549.90	\$ 30,526.35	\$ 36,220.29	\$ 40,059.71	\$ 54,309.04
(75) Dépenses administratives	9,369.96	15,486.31	17,932.29	24,173.00	34,146.07	39,271.31	46,421.21
(76) Sous-total (74)+(75)	24,769.44	33,040.19	40,482.19	54,699.35	70,366.36	79,331.02	100,730.25
(77) Intérêts	29,908.47	30,158.25	33,106.40	50,236.68	62,236.26	89,406.14	98,080.80
(80) Excédents #	23,259.79	24,741.69	19,868.06	33,302.44	41,497.29	94,339.96	62,280.78
Total des dépenses (76)+(77)+(80)	\$ 77,937.70	\$ 87,940.13	\$ 93,456.65	\$ 138,238.47	\$ 174,099.91	\$ 263,077.12	\$ 261,091.83

Les excédents comprennent les bénéfices de capital, les frais prévus, le surplus et les excédents de l'année en cours.

Je soussigné et les ayants droit de l'un ou l'autre des
 auteurs des ouvrages ci-dessus désignés, reconnaissons et certifions
 que les ouvrages ci-dessus désignés sont de notre composition et que
 nous sommes les seuls auteurs de ces ouvrages.

Total des ouvrages (12)+(11)+(80)

(12) Ouvrages

(11)

(80) Autres

100

Autres ouvrages

(12) Ouvrages

(11)

100

100

(12) Ouvrages

(11)

100

100

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Toronto, Ontario

A1589

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

Mars

Juin

Sept.

Déc.

1955 - Gouv. du Canada et garanties
par le Gouv. du Canada:

(18) Bons du Trésor	\$	---	\$	---	\$	---	\$	---
(19) Autres 0-2		---		---		---		---
(20) Municipales et scolaires		---		---		---		---
(21) 3-5		---		---		---		---
(22) 6-10		---		---		---		125,000.00
(23) 11 et plus		---		---		---		---
(23) Sous-total (18)+(19)+(20)		335,500.00		235,500.00		335,500.00		235,500.00
+(21)+(22)		335,500.00		235,500.00		335,500.00		360,500.00

(24) Gouv. prov. et garanties par le Gouvernement provincial	267,000.00	187,000.00	187,000.00	115,000.00
(25) Municipales et scolaires	524,000.00	436,000.00	548,000.00	439,500.00
(26) Rel. et autres institutions sans but lucratif	15,000.00	8,000.00	13,500.00	3,000.00
(27) Autres corporations canadiennes	200,000.00	---	50,000.00	---
(28) Sous-total (24)+(25)+(26)+(27)	1,006,000.00	631,000.00	798,500.00	557,500.00
(29) Total (23)+(28)	\$1,341,500.00	\$866,500.00	\$1,134,000.00	\$ 918,000.00

Valeur aux livres

\$1,334,058.87 \$ 856,508.74 \$1,124,041.44 \$ 906,615.44

1956 Gouv. du Canada et garanties
par le Gouv. du Canada

(18) Bons du Trésor	\$	---	\$	---	\$	---	\$	---
(19) Autres 0-2		125,000.00		---		---		---
(20) 3-5		---		---		---		---
(21) 6-10		---		275,000.00		275,000.00		150,000.00
(22) 11 et plus		---		---		---		---
(23) Sous total (18)+(19)+(20)+(21)		235,500.00		235,500.00		235,500.00		235,500.00
+(22)		360,500.00		510,500.00		510,500.00		385,500.00

(24) Gouv. prov. et garanties par le Gouvernement provincial	215,000.00	215,000.00	115,000.00	169,000.00
(25) Municipales et scolaires	460,000.00	450,500.00	444,500.00	356,500.00
(26) Rel. et autres institutions sans but lucratif	3,000.00	3,000.00	3,000.00	3,000.00
(27) Autres corporations canadiennes	---	---	---	---
(28) Sous-total (24)+(25)+(26)+(27)	678,000.00	668,500.00	562,500.00	528,500.00
(29) Total (23)+(28)	\$1,038,500.00	\$1,179,000.00	\$1,073,000.00	\$ 914,000.00

Valeur aux livres

\$1,026,434.74 \$1,162,584.74 \$1,057,084.74 \$ 899,980.94



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A1590

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

Mars

Juin

Sept.

Déc.

1957 Gouv. du Canada et garanties
par le Gouv. du Canada:

(18)	Bons du Trésor	\$ ---	\$ 100,000.00	\$ ---	\$ 100,000.00
(19)	Autres 0-2	---	---	---	---
(20)	3-5	150,000.00	150,000.00	150,000.00	150,000.00
(21)	6-10	235,500.00	235,500.00	235,500.00	235,500.00
(22)	11 et plus	---	---	---	---
(23)	Sous-total (18)+(19)+(20) +(21)+(22)	385,500.00	485,500.00	385,500.00	485,500.00

(24)	Gouv. prov. et garanties par le Gouvernement provincial	115,000.00	115,000.00	115,000.00	115,000.00
(25)	Municipales et scolaires	385,800.00	484,000.00	457,500.00	460,100.00
(26)	Rel. et autres institutions sans but lucratif	3,000.00	3,000.00	3,000.00	3,000.00
(27)	Autres corporations canadiennes	200,000.00	---	---	50,000.00
(28)	Sous-total (24)+(25)+(26)+(27)	703,800.00	602,000.00	575,500.00	628,100.00

(29)	Total (23)+(28)	<u>\$1,089,300.00</u>	<u>\$1,087,500.00</u>	<u>\$ 961,000.00</u>	<u>\$1,113,600.00</u>
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Valeur aux livres	<u>\$1,077,264.67</u>	<u>\$1,070,278.93</u>	<u>\$ 943,211.84</u>	<u>\$1,100,750.35</u>
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1958 Gouv. du Canada et garanties
par le Gouv. du Canada:

(18)	Bons du Trésor	\$ 600,000.00	\$ 100,000.00	\$ ---
(19)	Autres 0-2	50,000.00	---	---
(20)	3-5	---	---	---
(21)	6-10	235,500.00	235,500.00	100,000.00
(22)	11 et plus	---	50,000.00	185,500.00
(23)	Sous-total (18)+(19)+(20) +(21)+(22)	885,500.00	385,500.00	285,500.00

(24)	Gouv. prov. et garanties par le Gouvernement provincial	116,000.00	137,000.00	126,000.00
(25)	Municipales et scolaires	643,400.00	1,075,900.00	1,053,000.00
(26)	Rel. et autres institutions sans but lucratif	98,000.00	113,000.00	84,000.00
(27)	Autres corporations canadiennes	60,000.00	60,000.00	157,776.90
(28)	Sous-total (24)+(25)+(26)+(27)	917,400.00	1,385,900.00	1,420,776.90

(29)	Total (23)+(28)	<u>\$1,802,900.00</u>	<u>\$1,771,400.00</u>	<u>\$ 1,706,276.90</u>
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Valeur aux livres	<u>\$1,778,638.82</u>	<u>\$1,729,361.12</u>	<u>\$ 1,673,651.43</u>
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FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

Mars

Juin

Sept.

Déc.

1959

Gouv. du Canada et garanties
par le Gouv. du Canada:

(18)	Bons du Trésor	\$	---	\$	---	\$	150,000.00
(19)	Autres 0-2		50,000.00		50,000.00		175,000.00
(20)	3-5		---		---		50,000.00
(21)	6-10		100,000.00		100,000.00		100,000.00
(22)	11 et plus		185,500.00		185,500.00		185,500.00
(23)	Sous-total (18)+(19)+(20) +(21)+(22)		335,500.00		335,500.00		660,500.00

(24)	Gouv. prov. et garanties par le Gouvernement provincial		141,000.00		126,000.00		66,000.00
(25)	Municipales et scolaires		1,104,000.00		729,500.00		993,600.00
(26)	Rel. et autres institutions sans but lucratif		90,000.00		404,000.00		84,500.00
(27)	Autres corporations canadiennes		202,118.30		202,118.30		193,118.30
(28)	Sous-total (24)+(25)+(26)+(27)		1,537,118.30		1,461,618.30		1,337,218.30

(29)	Total (23)+(28)		<u>\$1,872,618.30</u>		<u>\$1,797,118.30</u>		<u>\$1,997,718.30</u>
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Valeur aux livres

\$1,837,533.03 \$1,749,958.01 \$1,957,926.05

1960

Gouv. du Canada et garanties
par le Gouv. du Canada:

(18)	Bons du Trésor	\$	800,000.00	\$	700,000.00	\$	250,000.00	\$	924,000.00
(19)	Autres 0-2		150,000.00		150,000.00		150,000.00		---
(20)	3-5		225,000.00		275,000.00		74,500.00		---
(21)	6-10		100,000.00		---		---		100,000.00
(22)	11 et plus		185,500.00		185,500.00		185,500.00		185,500.00
(23)	Sous-total (18)+(19)+(20) +(21)+(22)+(23)		1,460,500.00		1,310,500.00		660,000.00		1,209,500.00

(24)	Gouv. prov. et garanties par le Gouvernement provincial		123,000.00		223,000.00		277,000.00		277,000.00
(25)	Municipales et scolaires		1,105,400.00		1,179,675.00		1,295,675.00		1,400,300.00
(26)	Rel. et autres institutions sans but lucratif		84,100.00		126,300.00		292,300.00		238,500.00
(27)	Autres corporations canadiennes		202,118.30		402,118.30		202,118.30		59,000.00
(28)	Sous-total (24)+(25)+(26)+(27)		1,514,618.30		1,931,093.30		2,067,093.30		1,974,800.00

(29)	Total (23)+(28)		<u>\$2,975,118.30</u>		<u>\$3,241,593.30</u>		<u>\$2,727,093.30</u>		<u>\$3,184,300.00</u>
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Valeur aux livres

\$2,919,327.95 \$3,184,865.81 \$2,675,542.81 \$3,131,094.02



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A1592

FEDERATION DE MONTREAL DES CAISSES DESJARDINS

ANALYSE DU PORTEFEUILLE:

Mars

Juin

Sept.

Déc.

1961

Gouv. du Canada et garanties
par le Gouv. du Canada:

(18)	Bons du Trésor	\$ 601,000.00	\$ 85,000.00	\$ 85,000.00	\$ ---
(19)	Autres 0-2	50,000.00	75,000.00	125,000.00	125,000.00
(20)	3-5	250,000.00	250,000.00	700,000.00	650,000.00
(21)	6-10	50,000.00	50,000.00	50,000.00	50,000.00
(22)	11 et plus	135,500.00	135,500.00	135,500.00	135,500.00
(23)	Sous-total (18)+(19)+(20) +(21)+(22)	1,086,500.00	595,500.00	1,095,500.00	960,500.00

(24)	Gouv. prov. et garanties par le Gouvernement provincial	477,000.00	545,000.00	763,500.00	439,500.00
(25)	Municipales et scolaires	1,448,000.00	1,714,500.00	1,909,000.00	1,874,000.00
(26)	Rel. et autres institutions sans but lucratif	242,500.00	253,500.00	218,500.00	219,500.00
(27)	Autres corporations canadiennes	90,000.00	190,000.00	78,500.00	78,500.00
(28)	Sous-total (24)+(25)+(26)+(27)	2,257,500.00	2,703,000.00	2,969,500.00	2,611,500.00

(29)	Total (23)+(28)	<u>\$3,344,000.00</u>	<u>\$3,298,500.00</u>	<u>\$4,065,000.00</u>	<u>\$3,572,000.00</u>
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Valeur aux livres

<u>\$3,290,863.74</u>	<u>\$3,246,665.75</u>	<u>\$3,996,092.28</u>	<u>\$3,517,313.56</u>
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Royal Commission
on
Banking and Finance

Hearings
held at
Montreal

Vol.
18

Date.

May 17 1962



Official Reporters
J.J. Nethercut and R.J. Young
Toronto, Ont.

TABLE OF CONTENTS

Introduction
Chapter I
Chapter II
Chapter III
Chapter IV
Chapter V
Chapter VI
Chapter VII
Chapter VIII
Chapter IX
Chapter X
Chapter XI
Chapter XII
Chapter XIII
Chapter XIV
Chapter XV
Chapter XVI
Chapter XVII
Chapter XVIII
Chapter XIX
Chapter XX
Chapter XXI
Chapter XXII
Chapter XXIII
Chapter XXIV
Chapter XXV
Chapter XXVI
Chapter XXVII
Chapter XXVIII
Chapter XXIX
Chapter XXX
Chapter XXXI
Chapter XXXII
Chapter XXXIII
Chapter XXXIV
Chapter XXXV
Chapter XXXVI
Chapter XXXVII
Chapter XXXVIII
Chapter XXXIX
Chapter XL
Chapter XLI
Chapter XLII
Chapter XLIII
Chapter XLIV
Chapter XLV
Chapter XLVI
Chapter XLVII
Chapter XLVIII
Chapter XLIX
Chapter L
Chapter LI
Chapter LII
Chapter LIII
Chapter LIV
Chapter LV
Chapter LVI
Chapter LVII
Chapter LVIII
Chapter LIX
Chapter LX
Chapter LXI
Chapter LXII
Chapter LXIII
Chapter LXIV
Chapter LXV
Chapter LXVI
Chapter LXVII
Chapter LXVIII
Chapter LXIX
Chapter LXX
Chapter LXXI
Chapter LXXII
Chapter LXXIII
Chapter LXXIV
Chapter LXXV
Chapter LXXVI
Chapter LXXVII
Chapter LXXVIII
Chapter LXXIX
Chapter LXXX
Chapter LXXXI
Chapter LXXXII
Chapter LXXXIII
Chapter LXXXIV
Chapter LXXXV
Chapter LXXXVI
Chapter LXXXVII
Chapter LXXXVIII
Chapter LXXXIX
Chapter LXXXX
Chapter LXXXXI
Chapter LXXXXII
Chapter LXXXXIII
Chapter LXXXXIV
Chapter LXXXXV
Chapter LXXXXVI
Chapter LXXXXVII
Chapter LXXXXVIII
Chapter LXXXXIX
Chapter LXXXXX
Chapter LXXXXXI
Chapter LXXXXXII
Chapter LXXXXXIII
Chapter LXXXXXIV
Chapter LXXXXXV
Chapter LXXXXXVI
Chapter LXXXXXVII
Chapter LXXXXXVIII
Chapter LXXXXXIX
Chapter LXXXXXX
Chapter LXXXXXXI
Chapter LXXXXXXII
Chapter LXXXXXXIII
Chapter LXXXXXXIV
Chapter LXXXXXXV
Chapter LXXXXXXVI
Chapter LXXXXXXVII
Chapter LXXXXXXVIII
Chapter LXXXXXXIX
Chapter LXXXXXXX
Chapter LXXXXXXI
Chapter LXXXXXXII
Chapter LXXXXXXIII
Chapter LXXXXXXIV
Chapter LXXXXXXV
Chapter LXXXXXXVI
Chapter LXXXXXXVII
Chapter LXXXXXXVIII
Chapter LXXXXXXIX
Chapter LXXXXXXX

INDEX

ABBREVIATIONS

to the effect of a resolution of the
Quebec Savings Banks Association
dated 1st January 1900

Mr. J. H. Brown, President of the
Quebec Savings Banks Association
dated 1st January 1900

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Toronto, Ontario

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ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

Quebec Savings Banks

1854



Nethercut & Young

Toronto, Ontario

- 1853 -

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Montreal,
Quebec, on Thursday,
May 17th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



Montreal, Quebec,
Thursday, May 17th, 1962.

--- On resuming at 9.20 A.M.

SUBMISSION OF QUEBEC
SAVINGS BANKS

APPEARANCES

G. Vanier	- President, Montreal City and District Savings Bank
J. Turgeon	- President, Quebec Savings Banks
G. Foucault	- General Manager, Quebec Savings Banks
A. Rainville	- General Manager, Montreal City and District Savings Bank
A. Audet	- Assistant General Manager, Montreal City and District Savings Bank

THE CHAIRMAN: This morning we have a submission from the Quebec Savings Banks. Mr. Vanier, I believe you will present the submission.

MR. VANIER: Mr. Chairman and gentlemen, the Canadian government has entrusted your Commission with a very important task involving great responsibilities. On the merits of your own personal achievements you have been singled out as the proper citizens to handle that task, so it is my pleasure to congratulate you on your



Montreal, Quebec,
Thursday, May 17th, 1912

--- On resuming at 9.30 A.M.

SUBMISSION OF QUEBEC
DISTRICT SAVINGS BANK

APPARANCES

- | | |
|-------------|--|
| G. Vanier | - President, Montreal City and District Savings Bank |
| J. Turgeon | - President, Quebec Savings Banks |
| G. Housault | - General Manager, Quebec |
| A. Rivest | - General Manager, Montreal City and District Savings Bank |
| A. Aubert | - Assistant General Manager, Montreal City and District Savings Bank |

THE CHAIRMAN: This morning we have a submission from the Quebec Savings Banks, Mr. Vanier, I believe you will present the submission.

MR. VANIER: Mr. Chairman and gentlemen, the Canadian Government has entrusted your Commission with a very important task involving great responsibilities. On the merits of your own personal endeavours you have been singled out as the proper citizens to handle that task, so it is my pleasure to congratulate you.



1 appointments. I wish to state that we feel it an
2 honour to appear before this Commission and to be
3 called upon to give you our modest cooperation.

4 I think I should introduce my colleagues
5 to you. I have on my right Mr. Turgeon and Mr.
6 Foucault, president and general manager of the
7 Quebec Savings Banks. On my left I have Mr.
8 Rainville and Mr. Audet, general manager and
9 assistant general manager of the Montreal City and
10 District Savings Bank.

11 As you see, all these gentlemen are French
12 Canadians, so since you are sitting in the eastern
13 part of Canada I am sure you are all well acquainted
14 with both languages and if you prefer to speak
15 French it will be quite welcomed.

16 Before formally filing our brief I should
17 like to make personally two short remarks.

18 As you know, besides the Bank of Canada
19 and the bank for industrial expansion, there are
20 only two kinds of banks in Canada; chartered banks
21 or commercial banks and savings banks. The
22 commercial banks are called "chartered banks"
23 but they have no charter. I believe it would be
24 more realistic to call them "commercial banks"
25 because their main purpose is to handle short term
26 credit to trade in industry. On the other hand,
27 savings banks which are not called "chartered" have
28 royal charter since 1871, so we have our troubles.
29 This is the reason why I submit that it would be
30



...I wish to state that we feel it an
honour to appear before this Commission and to be

I think I should introduce my colleagues

to you. I have on my right Mr. Tupper and Mr.

Forbes, president and general manager of the

Quebec Savings Bank. On my left I have Mr.

Rainville and Mr. Adet, general manager and

assistant general manager of the Montreal City and

District Savings Bank.

As you see, all these gentlemen are French

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and the bank for industrial expansion, there are

only two kinds of banks in Canada: chartered banks

or commercial banks and savings banks. The

commercial banks are called "chartered banks"

but they have no charter. I believe it would be

more realistic to call them "commercial banks"

because their main purpose is to handle short term

credit to trade and industry. On the other hand,

the savings banks have no other purpose than to

accumulate funds and invest them in long term

investments. This is the reason why I think that it would be



proper to call chartered banks "commercial banks".
If chartered banks are commercial banks, we are
the bank of the individual and the family. I
mean by that that every citizen has a small cash
balance. He has to put that in safety somewhere
and we are the ones who are called upon to take
care of these personal deposits. Besides that,
every family has a certain number of payments.
Every individual and family has certain current
needs and they have to make payments in this
regard, so we handle that because all of our
accounts are chequing accounts, and all of them
carry interest besides so they are savings deposits
and at the same time chequing accounts. Besides
that, the family and individual are in need of
certain credit. While we are not allowed to
extend credit to trade and commerce, we extend
credit for all personal needs. We have all the
powers of the commercial banks ^{than} ~~both~~ the power
to lend money for trade and industrial purposes,
but we do not discount commercial paper. We
do, however, do all banking services.

As you see, there are those two kinds
of banks which are really banks. We are called
"banks" by our charter of 1871. We are both
governed by two federal statutes; the commercial
banks by a law called the Banks Act, and the savings
banks by a law that is very similar to it and is
called the Quebec Savings Banks Act. The laws
are practically alike; the same dispositions and

proper to call chartered banks "commercial banks"
If chartered banks are commercial banks, we are
the bank of the individual and the family.
mean by that that every citizen has a small cash
balance. He has to put that in safety somewhere
and we are the ones who are called upon to take
care of these personal deposits. Besides that,
every family has a certain number of payments.
Every individual and family has certain current
needs and they have to make payments in this
regard, so we handle that because all of our
accounts are checking accounts, and all of them
carry interest besides so they are savings deposits
and at the same time checking accounts. Besides
that, the family and individual are in need of
certain credit. While we are not allowed to
extend credit to trade and commerce, we extend
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1 clauses cover both institutions. The only difference
2 is that we are not allowed to invade commercial
3 business. On the other hand we handle commercial
4 mortgages which the other banks are not allowed to
5 do. However, they are practically the same in
6 respect to the needs of all individuals of money
7 for their homes or investments in real estate.

8 The other financial institutions are
9 not allowed to use the words "bank, banking", or
10 "banker", but more or less they have invaded the
11 banking field. So much so that they are called
12 "near banks" by practically everybody. They
13 are not, as we are, submitted to the authority
14 of the Inspector General of Banks, Mr. Alderkin,
15 whom, by the way, we hold as a very efficient,
16 capable and cooperative public officer, and I
17 am glad to pay that tribute to him.

18 So these other institutions are not
19 submitted to the inspections and the controls
20 of the Inspector General of Banks. We are
21 bound by law to send to the Minister of Finance
22 reports which are very similar to the ones that
23 are sent from time to time by commercial banks.
24 Our obligations are practically the same in that
25 regard. We are also subject to certain limitations
26 because public authority has taken the stand that
27 those who are handling public funds have to be
28 controlled for the safeguard of the public, and
29 there are certain limitations that are imposed
30

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1 upon banks. We have to work within those limitations,
2 but the near banks are not obliged to any such
3 limitation at all. Besides that, we pay tax
4 as commercial banks, but some of the near banks
5 do not pay taxes. The difference was not very
6 impressive when taxes were at the rate of 10 or
7 15 per cent of profits, but now that we have to
8 pay 52 cents out of every dollar of that profit
9 it means something as far as competition is
10 concerned.

11 You have probably noticed that the same
12 problem has arisen in the United States. President
13 Kennedy in his last message to Congress has said
14 that revised the basis of taxation and dealt other-
15 wise with a certain quantity of institutions which
16 he calls "overprivileged". So, that shows that
17 there is a certain problem here in Canada and
18 that problem is a problem existing, I would say,
19 all over the world, but especially all over this
20 continent.

21 That is my first remark about the kind
22 of banks that we have and the kind of general
23 competition that we have to meet.

24 My second and last remark is this. I
25 believe that there is an appalling lack of definition
26 in the Banks Act. The word "bank" is not
27 even defined there. I believe it should be a
28 responsibility of your Commission to introduce some
29 definitions -- some appropriate definitions in that
30 statute because, if the general situation is confusing



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act because, in the general situation



1 I believe you can clarify it by stating what a
2 bank is and what banking operation is. Personally
3 I have my views in that regard and I might suggest
4 to you, if you will allow me to a little later,
5 a few definitions. However, I do not think I
6 should introduce this aspect into the discussion
7 now. I do have a few definitions with me that
8 you might be called upon to consider, and I believe
9 they might be of some help to those who have to deal
10 with banking.

11 First of all, they want to know what a
12 bank is, and I believe you should state to the
13 public what a bank is. You have the authority to
14 do so, and one must follow rules that are set up
15 by an important commission such as this.

16 Gentlemen, that is about all I wish to
17 say as preliminary comment. I have asked Mr.
18 Turgeon if he wishes to make any remarks before
19 the formal filing of our brief. He has indicated
20 that he has nothing to say for the time being, but
21 I am sure he will contribute in a very wise way
22 to the discussion.

23 I think it is appropriate that we should
24 start at the beginning, and I will ask Mr. Rainville
25 to give you the highlights of our brief.

26 THE CHAIRMAN: Thank you very much.

27 MR. RAINVILLE: Mr. Chairman and gentlemen,
28 the Quebec Savings Banks in their brief have not
29 commented exhaustively on matters they thought would
30



1 be more completely covered by other individuals, and
2 we have limited ourselves to subjects we believe
3 are of special interest to the situations that
4 concern the Quebec Savings Banks.

5 The Quebec Savings Banks are very proud of
6 the fact that they are the two oldest surviving
7 institutions in Canada. Both started their
8 operations as mutuals and philanthropic institutions
9 more than a century ago. In 1871, when Confederation
10 was established in Canada they came under the purview
11 of the Dominion government and ceased operations
12 as mutuals, and were granted royal charters.

13 Our operations are mostly in the Montreal
14 and Quebec districts, and the two banks together
15 have 74 branch offices and about 1,000 employees.
16 Each bank is limited in the area in which it can
17 operate, and our Quebec Savings Banks Act
18 defines the main district of Montreal and the district
19 of Quebec and the judicial districts comprised in
20 the area where each bank has authority to operate.

21 I have here a map which shows exactly
22 what are these districts that are comprised of in
23 each area. Apart from the points covered in the
24 Act which do not deserve special consideration,
25 there are some points of more importance which
26 describe the conditions under which the Quebec
27 Savings Banks operate.

28 The first point would cover the cash
29 and additional reserves. The first reserve
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there are some points of more importance which describe the conditions under which the Quebec Savings Banks operate.

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and additional reserves. The first reserve



1 must be equal to at least 5 per cent of the deposit
2 liabilities of the bank and must be in the form of
3 notes of the Bank of Canada or deposits with the
4 Bank of Canada or with chartered banks.

5 The secondary reserve must be equal to
6 at least 15 per cent of the banks deposit liabilities.
7 This reserve must be in the form of notes of the
8 Bank of Canada, deposits with the Bank of Canada,
9 or with chartered banks, securities of or guaranteed
10 by the government of Canada or of the provinces.
11 Principal reserve requirements are more than
12 sufficient. Authorities on the subject and
13 students of banking agree that an increase in the
14 requirements to be applied to savings deposits
15 would serve no useful purpose.

16 Another section covers the securities
17 in which we can invest freely. These securities
18 are considered gilt edge securities and comprise
19 securities of or guaranteed by the government
20 of Canada or the provinces, municipal corporations,
21 school corporations and other bonds presenting
22 preferred security.

23 Another section covers securities in which
24 investment is restricted. In this group are
25 included bonds and debentures, first preferred shares
26 in Canadian corporations meeting certain requirements,
27 shares of any Canadian commercial bank and other
28 securities approved by the Treasury Board. The
29 total value in above investments must not exceed
30



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included bonds and debentures, first preferred shares

shares of any Canadian commercial bank and other

securities approved by the Treasury Board. The



1 15 per cent of the banks deposit liabilities.

2 Since 1957 the Quebec Savings Banks
3 have been permitted to invest in securities and
4 shares of Canadian corporations, not in default
5 of principal or interest providing the aggregate
6 value of such investment does not exceed 50 per
7 cent of paid up capital and rest account of the
8 bank.

9 Savings banks may lend on mortgages covered
10 by the National Housing Act and on national first
11 mortgages. The bank restrictions apply to
12 loans in the last category. Each loan must not
13 exceed the lesser of \$100,000 or 60 per cent of
14 the bank evaluation of the property. There must
15 be a building on the property of which at least
16 one-half of the floor space is used for residential
17 purposes.

18 Savings banks are not allowed to discount
19 commercial paper. Loans may be made on securities
20 in which the banks may invest freely and under
21 certain conditions in shares of commercial banks
22 or securities of a corporation in the restricted
23 group.

24 Savings banks may lend money without
25 security to the government of Canada or of any
26 province, Canadian municipalities, school corporations,
27 religious corporations, Fabriques de Paroisse,
28 hospitals or sanitoriums in the province of Quebec,
29 and under certain conditions, shares of other Canadian
30



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1 corporations.

2 Personal loans may also be made up to
3 \$5,000. The total amount of unsecured loans must
4 not exceed 5 per cent of the banks deposit liabilities,
5 excluding loans to the government of Canada or of
6 another province.

7 Banks are not allowed to charge a rate
8 of interest or discount higher than 6 per cent on
9 loans except mortgage loans. The rates for calculating
10 charges are also specified.

11 Generally speaking the Quebec Savings Banks
12 Act compares favourably with the laws governing
13 savings banks in other countries but the powers
14 granted to our own savings banks have advantages
15 over others. This is to allow the Quebec Savings
16 Banks to fulfil a very preferred role enabling
17 them to better serve their customers, but the banks
18 believe that some amendments should be made to the
19 Canadian Savings Banks Act. These amendments
20 cover qualifications of directors because under
21 the present statutory requirements it is very
22 difficult if not impossible for many candidates,
23 otherwise qualified, to be elected to the boards
24 of directors. We recommend that the number of
25 shares required should be reduced from 500 to
26 100 shares. We also ask authorization to
27 divide our shares in order to make them more
28 accessible to small investors.

29 Finally, we ask that the price limitation
30 on the issue of new share capital be removed.

Personal loans may also be made up to \$1,000. The total amount of unsecured loans must not exceed 5 per cent of the banks deposit liabilities excluding loans to the Government of Canada or of another province.

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Generally speaking the Quebec Savings Bank Act compares favourably with the laws governing savings banks in other countries and the powers granted to our own savings banks have not been over others. This is to allow the Quebec Savings Bank to better serve their customers, but the banks believe that some amendments should be made to the Canadian Savings Bank Act. These amendments cover qualifications of directors because under the present statutory requirements it is very difficult if not impossible for many candidates otherwise qualified, to be elected on the boards of directors. We recommend that the number of shares required should be reduced from 500 to 100 shares. We also ask authorization to divide our shares in order to make them more accessible to small investors.

Finally, we ask that the price limitation



1 The Savings Banks recommends that bonds
2 of large public utilities which are now included
3 in the group of restricted investments be included
4 in the group of unrestricted investments under
5 certain reservations. They also recommend that
6 the present 15 per cent limitation enclosed by
7 Section 59 of the Act be raised to 20 per cent
8 on deposit liabilities.

9 Because of the unexpected increase
10 in the demands for loans by Religious Corporations,
11 Syndics or Fabriques de Paroisse, or for personal
12 loans, the banks recommend that the present
13 limitation of 5 per cent on liabilities for the
14 aggregate amount of unsecured loans be increased
15 to 10 per cent. Because of possible creeping
16 inflation and other reasons, the limitation of
17 \$5,000 for any one personal loan should be raised
18 to \$10,000.

19 A large increase in the demand for
20 mortgage loans is expected in the Montreal and Quebec
21 areas, and for this reason the Quebec Savings
22 Banks recommend that the present 40 per cent limit
23 to deposit liabilities be increased to 60 per cent,
24 excluding loans made under the National Housing
25 Act. Also, that the statutory limitation for each
26 loan be increased, and the amount of the evaluation
27 percentage of the residential requirements be
28 removed.

29 The Savings Banks also recommend that
30 they be authorized to make other than first conventional



The Savings Banks in

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1 mortgage loans within certain limitations.

2 The following points in regard to asset
3 management by the Quebec Savings Banks are
4 worthy of note. The Quebec Savings Banks feel that
5 a cash reserve of approximately 10 per cent of their
6 deposit liabilities should be kept as compared
7 to the 5 per cent minimum required by the Act.
8 Their holdings of Government of Canada and provincial
9 bonds exceed by far the 15 per cent of deposit
10 liabilities required by the Act.

11 We do not believe that changes that might
12 be contemplated in regard to cash requirements for
13 the purposes of tightening control over money
14 or credit would, if applied to the Quebec Savings
15 Banks, serve any useful purpose or increase the
16 effectiveness of monetary policy. Any change of
17 that nature should be restricted to commercial
18 banks and to other financial institutions whose
19 operations strongly influence the volume of money
20 and credit.

21 Developments in recent years have rendered
22 lending powers in mortgages and personal loans too
23 restrictive. Savings Banks wish to keep their
24 identity as savings banks and they are not interested
25 in making loans to industry and commerce; they
26 prefer the private banking service to the individual
27 and the family.

28 They feel justified in asking for amendments
29 to Section 64 of the Act, and they would like to
30 obtain at least the same lending powers in the mortgage



Committee on the

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Nethercut & Young,

- 1866 -

Toronto, Ontario

1 field as their competitors.

2 Personal loans are requested in larger
3 numbers and amounts and personal restrictions should,
4 in the Bank's opinion, be decreased.

5 There is a growing tendency to borrow
6 for large consumer expenditures rather than to
7 save for them, and thus the savings process has
8 become the repayment of the loans after the purchase
9 has been made instead of the building up of the
10 accounts prior to purchase.

11 The Savings Banks' lending rates are
12 generally in line with those of the other banks.
13 This policy does not apply to mortgage loans.
14 When credit is in short supply requests are
15 scrutinized more closely and the savings banks
16 try to satisfy the largest number of borrowers
17 rather than make a few large loans.

18 We have tried in our brief to analyse the
19 elements of banking functions.

20 In the past the functions of the banks
21 seemed clear enough in the minds of most people,
22 and with the advance of the new types of financial
23 institutions and their invasion of the Quebec field,
24 the question has been raised that these institutions
25 add to the confusion by pretending that since they
26 do not call themselves banks their operations are
27 not banking operations, but such superficial reasoning
28 does not change the facts.

29 The Quebec Savings Banks consider that
30

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not banking operations, but such superficial reasoning

The Quebec Savings Banks consider that



1 as such they have two main objects; to ensure the
2 highest degree of security for the money entrusted
3 to them and to provide complete financial services
4 for the individual and the family. In addition
5 to the specific changes recommended by the Quebec
6 Savings Banks, it would be advantageous for them
7 to be allowed to render additional services to
8 their customers such as the sale of savings banks
9 life insurance and the establishment of their own
10 mutual fund, the establishment of a real estate
11 investment trust with sales to for participation
12 by depositors, and the handling of trust accounts
13 for their depositors.

14 The services offered by the Quebec Savings
15 Banks covers nearly the same range of those offered
16 by the commercial banks, the main differences being
17 that savings banks cannot discount commercial paper,
18 whereas the commercial banks are not allowed to
19 make conventional mortgage loans. The savings
20 banks give particular attention to those services
21 which are of interest to the individual and the
22 family.

23 Factors influencing the rate of growth
24 of the Quebec Savings Banks, the favourable factors
25 are branch expansion, which is the most important
26 factor, and new services, and we think these are
27 the contributing factors.

28 The unfavourable factors are the restrictions
29 imposed on savings banks as compared with some of
30 their competitors, especially tax exempt institutions.



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and branch expansion, which is the most important
factor, and new services, and we think these are
the contributing factors.



1 Many institutions have departed from the principles
2 that are supposed to govern their operations and
3 they have entered the banking field and are less
4 motivated by a desire to promote thrift among their
5 members than by a business purpose.

6 They accumulate profits and we believe
7 this treatment is unjustified, since it imposes
8 a heavier burden on other taxpayers and denies
9 the government of much needed revenue.

10 In practice, co-operatives and mutuals
11 are synonymous and the Quebec Savings Banks believe
12 that they and the other deposit corporations have
13 become the true mutuals, since they contribute
14 more than half of their earnings to the support
15 of the state. This problem has drawn the attention
16 of many, including the President of the United States.

17 Quebec Savings Banks are proud of their
18 history and they have enjoyed the confidence of
19 many generations of depositors and have provided
20 a complete financial service to the individual and
21 the family.

22 They trust that the Royal Commission on
23 Banking and Finance will concur in their views
24 and recommendations so that they may be permitted
25 to better serve the thrifty who deal with them with
26 an absolute feeling of security.

27 THE CHAIRMAN: Are there any questions?

28 COMMISSIONER LEMAN: I note, Mr. Vanier,
29 that you have explained to us that there is a
30



Many institutions have suffered from the principles
that are supposed to govern their operation, and
they have entered the financial field and are less
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Health and Finance will report in their view
and recommendations so that they may be permitted
an absolute feeling of security.



1 territorial limitation in the charter of the Quebec
2 Savings Banks, and I note in paragraph 100 of your
3 brief you make a reference to this territorial
4 limitation, but you also imply that it has its
5 advantages.

6 What I would like to ask you is what
7 is the purpose of putting a territorial limitation
8 on an institution such as the savings banks?

9 MR. VANIER: That I couldn't know. We
10 haven't asked for it; we took it as it is but, in
11 fact, the territories are pretty clear because our
12 territory in Montreal coincides with the territory
13 covered by the Montreal section of the Appeal Court,
14 and the territory of our friends, of the Quebec
15 Savings Banks, coincide with the territory covered
16 by the division of Quebec and the Appeal Court.
17 So, this is very clearly the problem; it is divided
18 into two sections, and we operate in the western
19 part and Quebec operates in the eastern part.

20 COMMISSIONER LEMAN: Elsewhere when you
21 discuss the effects of growth of the Quebec Savings
22 Banks you said their ability to operate on the branch
23 system was one favourable factor in the growth, and
24 if the territory was also enlarged, would that be
25 an additional factor for growth?

26 MR. VANIER: Not in the immediate future,
27 because we have in Montreal 55 operating branches
28 and they are all in the metropolitan territory of
29 Montreal. There are many important cities that are
30

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by the division of Quebec and the Appeal Court. So, this is very clearly the province; it is divided into two sections, and we operate in the western part and Quebec operates in the eastern part.

discuss the effects of growth of the Quebec division. Banks you said that with growth, on the one hand, there was one favourable factor in the growth, and if the territory was also on growth, we had that as an additional factor for growth.

MR. VAILLANT: Not in the immediate future, because we have in Montreal 15 operating branches and they are all in the metropolitan territory of Montreal. There are many important cities that are



1 not covered by our institutions and they are granted
2 to us as being in our territory but we haven't been
3 there because the growth has been so rapid in the
4 district of Montreal that we thought we needed
5 good coverage in that district before expanding
6 outside, so there is no immediate need, but it will
7 eventually help.

8 COMMISSIONER LEMAN: In other words, you
9 felt you had your hands full trying to cover your
10 territory now.

11 MR. VANIER: Yes, and we agree with our
12 Quebec friends, and there is no problem.

13 COMMISSIONER LEMAN: Would that be true
14 of the Quebec bank, too?

15 MR. VANIER: Yes.

16 COMMISSIONER LEMAN: You do not have your
17 eyes on some surrounding municipalities where you
18 would like to go in?

19 MR. VANIER: We have the right, we could
20 cover the whole western part of the province and
21 we could go to Hull -- it is from Three Rivers;
22 our territory covers Three Rivers to Ontario and
23 from the United States to the North Pole!

24 THE CHAIRMAN: I did not know that
25 Quebec went that far.

26 MR. VANIER: And Quebec has the balance;
27 the territory is quite as large as ours.

28 THE CHAIRMAN: Why should you stop at
29 the boundaries of Ontario?
30

by our institutions and they are wanted
to us as being in our territory but we haven't been
there because the growth has been so rapid in the
territory that we haven't been able to keep up with it
outside, so there is no immediate need, but it will
eventually help.

COMMISSIONER LEMAN: In other words, you
felt you had your hands full trying to cover your
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1 MR. VANIER: We feel that Ontario would
2 do very nicely if they had banks similar to ours
3 and we could help them to build some of them if
4 they want, but for the time being we do not care
5 to invade their territory.

6 COMMISSIONER LEMAN: What is a little
7 puzzling to me is that for some reason -- that
8 we might discuss later -- if you say there have
9 not been other savings banks founded under the
10 Act ---

11 MR. RAINVILLE: I believe there ~~was~~ one
12 operating in Ontario in 1871.

13 COMMISSIONER LEMAN: But there has not
14 been much of a development in that specialized
15 type of institution.

16 MR. RAINVILLE: I believe this shows
17 that there is perhaps -- can I put it this way;
18 there is a line that could be drawn between the
19 savings banks and other institutions. You see,
20 in smaller communities I believe that these co-
21 operative institutions could do the job very well
22 because they have been specially organized to look
23 after the communities but they would not be big
24 enough to appeal in a big way to the larger banks,
25 but we could take care of the territory very well
26 because we have all these banking services that
27 the co-operatives have -- not all of them, perhaps,
28 because we are more limited than they are, but I
29 mean that we could render the services as far as
30



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enough to appeal in a big way to the larger banks,
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because we have all these working societies and

because we are more

mean that we could



deposits and credit is concerned, at least.

COMMISSIONER LEMAN: At any rate, you are not now asking for any extension?

MR. VANIER: Not in particular; it may come in the future, but not in the immediate future.

COMMISSIONER BROWN: Would you have any objection if somebody wanted to support the savings banks in your area?

MR. VANIER: No, we would help them.

COMMISSIONER BROWN: If somebody wanted to start one in Hull?

MR. VANIER: With pleasure, we would not object to it.

COMMISSIONER BROWN: Who is "we"?

MR. VANIER: I would say yes, because he is the businessman! I mean there is, of course, ---

COMMISSIONER BROWN: You see my point?

MR. VANIER: I believe that this should be clarified. I mean in principle there is no objection but, of course, as far as business is concerned the more we have the more we hold and the more we eventually could earn, but we do not take a mean decision as to that.

COMMISSIONER BROWN: At the moment let us take Hull as an example, it is within your area but you are not servicing Hull?

MR. VANIER: No.

COMMISSIONER BROWN: And that is why I asked.



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COMMISSIONER LEAH: As you state, you

are not now asking for any other thing?

MR. VANIER: Not in particular; in fact,

come in the interest, but not in the immediate interest.

COMMISSIONER LEAH: Would you have any

objection if somebody wanted to support the savings

banks in your area?

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COMMISSIONER BROWN: At the moment we

are taking Hull as an example, is it within your

area and you are not supporting it?

COMMISSIONER



1 MR. VANIER: I believe if the question was
2 put that we would say, " Well, we have to decide
3 on one or two things; we will do it ourselves
4 immediately or we shall allow the others to do it".
5 I believe that is the way I should clarify my
6 answer and I believe at this point I probably agree
7 with Mr. Rainville because we have explained we
8 do not exist for our own sake but for public
9 service; we have to give the service or allow others
10 to give it.

11 COMMISSIONER LEMAN: You believe it is
12 either plain or is implied in the Act now that
13 unless you agreed there could not be another savings
14 bank founded in your territory?

15 MR. VANIER: I would not say that, because
16 we have the right to do it, but there is nothing
17 that says that nobody could do it without our
18 permission. This qualifies again my answer.

19 COMMISSIONER LEMAN: I think that is all
20 I have.

21 COMMISSIONER BROWN: I was going to ask
22 if you have any theories as to why the savings bank
23 type of institution has developed only in these
24 two areas of Montreal and Quebec; why has there not
25 been more pressure for it to start in some of the
26 other centres, either in the province of Quebec
27 within your territories or in other parts of Canada?

28 MR. VANIER: Just to show that we agree
29 on things, I will let Mr. Rainville answer that
30 question.



1 MR. RAINVILLE: I think we have covered
2 this point in our brief, and it is because it requires
3 quite a lot of money to start a bank and for the first
4 few years it would not make money, probably, make
5 any profits, and it is much easier to start other
6 types of institutions which require less money to
7 start with and are not subjected to the same
8 restrictions that we are and therefore can make
9 more profitable transactions and make more profits
10 and I think that those are the two main reasons.
11 There might be others, but I do not know about them.

12 COMMISSIONER LEMAN: You must be referring
13 to very recent experience, Mr. Rainville, because
14 these other institutions you are talking about have
15 not developed very fast up to 25 years ago, have they?

16 MR. VANIER: No, perhaps not, but they
17 are not there now.

18 COMMISSIONER GIBSON: In the same vein,
19 Mr. Vanier, do you see any peculiar advantages to
20 a special act of preference for savings banks;
21 why is it we have a special act here which lays
22 down a particular framework for savings banks, has
23 it got some special values of its own that you think
24 are very important and should be preserved?

25 MR. VANIER: I believe the main reason
26 is that since we are taking the ordinary banking
27 operations that the government thought that anybody
28 who would deal in that line of business should be
29 subject to certain restrictions in order to safe-
30 guard the public. We receive the savings of the



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- 1875 -

1 public and I believe that this is a very important
2 responsibility and so the government has taken the
3 stand that whoever receives savings of the public
4 must make sure that it keeps itself in a position
5 to turn them back if they are wanted by the depositors,
6 so I believe that that was the main reason why we
7 have been subjected from the very start to certain
8 limitations and we are still subject to monthly
9 reports and to inspections from the Inspector
10 General of Banks, and then if it is not good then
11 it should be dispensed with, but if it is good
12 it should be applied to others.

13 COMMISSIONER GIBSON: This, I think, is
14 the historical evolution of how this came about.
15 Looking at it now, you believe that this Act has
16 particular values. I realize that there has to
17 be reliance on the banks, and this applies ^{to} ourselves
18 as well as yourself that you have a special act
19 and special regulations and restrictions affecting
20 you.

21 Now, you feel that it plays an important
22 part in your special kind of operation, do you?

23 MR. VANIER: I would say that we work
24 wonderfully on these positions with the government,
25 and there are certain changes that seem to be
26 warranted. We are quite satisfied with the
27 situation as it is, but we would like -- I mean,
28 as Mr. Rainville stated -- we want certain modifications,
29 but as a whole we do not object to the control, we
30 like it.



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- 1876 -

1 I believe we would behave well without
2 these obligations but it is not too bad to be
3 under the supervision of public authority, it
4 gives additional credit to an institution.

5 I referred to certain definitions, and
6 I believe that in my mind there are two operations
7 that are really banking operations, and one is to
8 use the savings of clients to extend it in the
9 form of credit to others. Now, that is a
10 responsibility. The institution takes the stand
11 on an intermediary between those who save and
12 do not want to invest and those who want additional
13 money but do not have the money to invest, so they
14 want to use the savings of others. They have it
15 and could use it and the bank agrees to the credit
16 under its own responsibility and keeps business in
17 the business and reimburses what has been deposited.
18 I believe that this is one of the main operations
19 of a bank.

20 Now, if we do that it is only reasonable
21 that it would be subject to inspection as the
22 commercial banks are because we do the same kind
23 of business.

24 COMMISSIONER GIBSON: Mr. Vanier, that
25 part of your definition is very broad; there are
26 lots of other institutions that use the savings
27 of people as a form of investment and use it some-
28 how to give credit to others. You use it in the
29 form of deposits.
30



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and could use it and the bank gives it for credit under its own responsibility and keeps business in the business and reimburse what has been borrowed. I believe that this is one of the main operations

Now, if we go back to the only remaining thing that it would be subject to inspection as the commercial banks are because we do the same kind of business.

COMMISSIONER ALMON: Mr. Walker, is this part of your definition is very broad; there are lots of other institutions that use the savings of people as a form of investment and use it to give how to give credit to others. You use it in the form of deposits.



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- 1877 -

1 MR. VANIER: Yes, but it is not my definition.
2 My definition would be the giving of credit to the
3 public by using the savings deposited in safe-keeping.
4 For instance, we handle in Montreal
5 about 300,000 accounts which is quite a number,
6 and we have around \$275 million on deposit, so this
7 means that the average amount deposited is a little
8 less than \$1,000. Well, this is all money that
9 may be needed eventually by anybody, so we cannot
10 freeze that by extending credit to others. This
11 is a great responsibility and I believe that this
12 is the banking operation in itself, so we have to
13 invest it in such a way that we keep ourselves
14 in a position to reimburse any depositor who claims
15 back his money.



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and we have about \$2.5 million in deposits, so this
means that the average amount deposited is a little
less than \$1,000. Well, this is all money that
may be needed eventually, by anybody, so we cannot
therefore by extending credit to others. This
is a great responsibility and I believe that this
is the banking operation in itself, so we have to
invest it in such a way that we keep ourselves
in a position to reimburse any depositor who claims
back his money.



1 When the money is given in safe-keeping this puts
2 a particular responsibility on the institution, and
3 if we lend that money that is deposited in safe-keeping
4 we have got to do it with care, and I believe it is not
5 bad that it should be done under the supervision of
6 the government.

7 COMMISSIONER LEMAN: I certainly do not
8 question a lot of the principles you have mentioned,
9 but you are opening up such a delicate question that
10 I think we ought to discuss this a bit more.

11 MR. VANIER: Well, I believe we are here
12 for that. This, I must say, is my personal opinion.
13 It is not in the report; it is my person view on
14 the matter, and I would not like to bind my friends
15 by that.

16 COMMISSIONER LEMAN: Isn't it possible to
17 visualize some more refinements in this question.
18 There are savers who may be anxious to have their
19 savings available to them at no notice at all, or
20 on very short notice, and there are other savers who
21 are willing to invest for a specified term. There
22 are other types of savers who are willing to invest
23 on very long-term. So, again, if you want to talk
24 about banking, could there be a lot of steps in this
25 use of people's savings to give credit to others?

26 MR. VANIER: It is on account of that we
27 invest in different ways. We have short-term
28 investments and longer term investments. We invest
29 in mortgages. We invest for five years with monthly
30 or quarterly instalments. This is an investment of a



responsibility on the institution, and
 we have got to do it with care and
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COMMISSIONER: I certainly do not
 question a lot of the things you have mentioned,
 but you are opening up such a delicate question that
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 for that. This, I must say, is my personal opinion.
 It is not in the report; it is my personal view on
 the matter, and I would not like to bind my opinion
 by that.

COMMISSIONER: I think it is desirable to
 visualize the various relationships in this question
 there are several who may be anxious to have their
 certain facilities for them and the matter is still
 on very short notice, and there are other groups who
 are willing to report for a special term. There
 are other groups of people who are willing to invest
 on very long-term. So, perhaps if you want to take
 about banking, and the fact of doing in this
 use of people's savings to give them a certain

MR. VANIER: It is on account of that we
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 investments and longer term investments. We invest
 in mortgages. We invest for five years with mobility



1 longer period because we have savings that should be
2 kept available but they will not be required by the
3 depositors for months and months to come or perhaps
4 years to come.

5 COMMISSIONER LEMAN: But I am looking for
6 a definition here. If a finance company that would
7 borrow money on 10-year term from savers with the idea
8 of giving credit to people -- is that banking?

9 MR. VANIER: I don't think we could say that
10 it would be banking if it is 11 months and it would not
11 be banking if it is 12 months. I don't think we
12 could draw a line that way. But, in general principle,
13 I believe whoever acts as an intermediary between
14 the one who saves without investing and the one who
15 needs the money without having the savings, is a
16 banking institution. In itself it is an operation
17 between savers and borrowers, and I believe this is
18 one of the characteristics of a banking institution.

19 COMMISSIONER GIBSON: You used the word
20 monies "entrusted" by savers to a financial intermediary
21 when you were defining "banking": Is there any
22 significance in those words? In other words, do you
23 draw a line between monies that are entrusted in the
24 form of a deposit and monies such as those Mr. Leman
25 mentioned that are put into a piece of paper as
26 security? Where is this line between what is a bank
27 and what is not a bank?

28 MR. VANIER: I don't think I can give an
29 answer that would be entirely satisfactory, but there
30 is no doubt, as I said in my preliminary remarks, that



1 every individual and family needs a certain cash
2 balance. That cash balance has to be kept available
3 to the one who deposits it. According to the present
4 requirements of the law, these monies deposited become
5 the property of the institution, but there is a
6 personal obligation to give it back on demand.

7 COMMISSIONER GIBSON: Yes, this is the case
8 with your deposits?

9 MR. VANIER: Yes.

10 COMMISSIONER GIBSON: Would you say this
11 was also the case where you sold a piece of paper
12 with your name on it -- a time instrument? You put out
13 deposit receipts, don't you?

14 MR. VANIER: Yes.

15 COMMISSIONER GIBSON: Do you regard that in
16 the same light?

17 MR. VANIER: Not exactly so, I would not say.

18 MR. RAINVILLE: There is a proportion of
19 deposits which will not be claimed immediately.

20 COMMISSIONER GIBSON: But they are also
21 monies entrusted to you?

22 MR. RAINVILLE: Yes.

23 MR. VANIER: That is the reason why the law
24 says we have to keep a first reserve and a second
25 reserve, because all the monies deposited with us are
26 not deposited under the same conditions.

27 COMMISSIONER GIBSON: But the reserves are not
28 applied to specific kinds of deposits?

29 MR. VANIER: No, they are based on the deposit
30 liabilities.



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COMMISSIONER GIBSON: But the reserves are not

applied to specific kinds of deposits?

Reserves



1 COMMISSIONER LEMAN: In the second case are
2 you still a banker, with the deposit receipts?

3 MR. RAINVILLE: Yes, of course.

4 MR. VANIER: Yes.

5 MR. RAINVILLE: The money can be withdrawn..
6 It is not withdrawn, and we don't expect it to be
7 withdrawn immediately. We know some people will need
8 their money today or tomorrow, but not all of them.
9 I don't think any bank would like them all to come in
10 and claim their money.

11 COMMISSIONER GIBSON: But are shares in the
12 credit union to be viewed in the same light? Is the
13 short-term paper of a finance company to be viewed
14 in the same light? There are differences in the
15 liquidity and in the legal papers that are put out.
16 There are differences in the legal obligations of the
17 man who takes those funds. We would be interested if
18 you could give us some idea here, but, as Mr. Leman
19 says, it just seems to grade slight changes as you
20 move down the time scale and as the legal form of the
21 instrument changes.

22 MR. RAINVILLE: When people put money in
23 deposit, that is a deposit and they expect to withdraw
24 the money, except those who buy certificates of
25 deposit. This is term money and it is therefore 90
26 days or a certain period of time and we can count on
27 holding that money for that period or perhaps longer,
28 but ordinary deposits get withdrawn at any time. They
29 are demand deposits, and there is a distinction there.

30 COMMISSIONER LEMAN: We agree with you, but



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1 our problem is that Mr. Vanier suggested we could
2 arrive at a good definition of what is banking and
3 what is not and that it was very clear that at one
4 point it would be and at one point it would not be,
5 and we were wondering about that.

6 MR. VANIER: I repeat my definition: The
7 extension of credit to the public out of savings
8 deposited for safe-keeping. When it is a deposit for
9 safe-keeping it is supposed to be drawn or used any
10 time without formality.

11 THE CHAIRMAN: Any time?

12 MR. VANIER: Any time -- no term. I believe
13 the distinction may be between the money deposited
14 under those circumstances and money deposited on
15 certificate receipts, which are different, because this
16 is a contract that will last the time of the deposit
17 receipts.

18 COMMISSIONER LEMAN: And that would not be
19 banking?

20 MR. VANIER: I would not say it would not
21 be banking, but we could specify that the other is
22 always banking.

23 COMMISSIONER BROWN: The deposit receipts
24 would be near banking?

25 MR. VANIER: It may be near banking, but I
26 don't think that formula would cover everything, but
27 it would cover one operation.

28 COMMISSIONER BROWN: Would you add into that
29 any definition of the means of withdrawal?

30 MR. VANIER: Yes. I have another definition,



problem is that Mr. Varnish suggested we could arrive at a good definition of what is banking and what is not and that it was very clear that at one point it would be and at one point it would not be.

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don't think that it would cover everything, but

it would cover one operation.

COMMISSIONER BROWN: Would you and also that

the definition of the word is withdrawn?



1 and I believe I will read it from my papers so that
2 I won't miss a single word of it:

3 The transformation of deposit liabilities
4 into actual currency by the acceptance of a cheque
5 or order of payment is essentially a banking operation.
6 I do not mean it covers all banking operations,
7 but it is in itself a banking operation.

8 COMMISSIONER BROWN: Your definition there
9 does not include the transfer of those liabilities
10 from one owner to another. You say the transfer into
11 money.

12 MR. VANIER: Yes.

13 COMMISSIONER BROWN: How about the transfer
14 from one person to another?

15 MR. VANIER: When the public statistics
16 give us the amount of currency in existence they usually
17 consider all the deposit liabilities as currency, but
18 they are actually currency only when a cheque is drawn
19 on those deposits. That is why I say it becomes a
20 banking operation as soon as that deposit actually
21 falls into circulation and becomes actual currency
22 by the issue of a cheque or an order, because it is
23 just as good as money at that time, and so it is
24 really currency.

25 COMMISSIONER BROWN: But if one person draws
26 a cheque on his account and gives it to another, and
27 that person does not draw the money out, but puts it
28 in his account, then it does not come within that
29 definition?

30 MR. VANIER: Why not?



MR. VANIER: Why not?

in his account, then it does not come within that

that person does not draw the money out, but puts it
a cheque on his account and gives it to another, and

COMMISSIONER BROWN: But if one person draws

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COMMISSIONER BROWN: How about the transfer

from one owner to another. You say the transfer into
does not include the transfer of those liabilities

but it is in itself a banking operation.

I do not mean it covers all banking operation

into actual currency by the acceptance of a cheque



1 COMMISSIONER BROWN: Because nothing has
2 been turned over.

3 MR. VANIER: If I have one dollar to give
4 to my good friend Mr. Turgeon, I can take ten dollar
5 bills and give it, or I can give a cheque on my account
6 and he will deposit it in his account, so it is actual
7 currency between he and I.

8 COMMISSIONER BROWN: You would include that
9 in your definition?

10 MR. VANIER: Yes, as soon as it replaces
11 metal currency or paper currency it increases the
12 volume of currency in use.

13 COMMISSIONER BROWN: Let us go one stage
14 further -- and I think this has become a legal
15 problem in some countries: Instead of writing a cheque
16 on your account to pay Eaton's and Simpson's you write
17 a letter to the bank telling them to pay Eaton's and
18 Simpson's out of your account.

19 MR. VANIER: Well, this might not be, because
20 this letter cannot be endorsed and circulated as money,
21 while a cheque could always be endorsed and could go
22 into a hundred hands before it is debited to the
23 account on which it is drawn.

24 COMMISSIONER BROWN: But our problem that
25 arises is that ---

26 MR. VANIER: Yes, but a letter is a private
27 document. I could make a call over the telephone and
28 say, "Would you do that?", and if the bank wants to
29 take the risk, they could make the transfer.

30 COMMISSIONER BROWN: And you would not call



COMMISSIONER BROWN: Because nothing has

been done

MR. VANIER: If I have one dollar to give

to my good friend Mr. Tupper, I can take ten dollars

bills and give it, or I can give a check on my bank

and he will deposit it in his account, so it is actual

currency between me and I.

COMMISSIONER BROWN: You would include that

in your report

MR. VANIER: Yes, as soon as it reaches

actual currency or paper currency it increases the

volume of currency in use.

COMMISSIONER BROWN: Let us go one stage

further -- and I think this has become a legal

problem in some countries: Instead of writing a check

on your account to pay Hutton and Simpson's you write

a letter to the bank telling them to pay Hutton's and

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1 that banking?

2 MR. VANIER: No, this is an ordinary
3 contract -- this is an agreement between two parties,
4 but I would not say it is essential banking; but
5 when it takes the form of a document that could circulate
6 from hand to hand in a limited period of time between
7 an unlimited number of holders, then it acts as actual
8 currency and this is banking because it changes the
9 nature of the deposit. It changes into actual currency.

10 COMMISSIONER LEMAN: You may run into this
11 difficulty: The Bills of Exchange Act says that a
12 cheque is an order for payment drawn on a bank. If
13 you start saying a bank is an institution on which
14 certain orders for payment are drawn, then you are
15 defining the two things one by the other.

16 MR. VANIER: No. I believe if we define
17 banking operations we will find that a financial
18 institution that does banking operations becomes a
19 bank. As you know, other financial institutions
20 besides the two kinds of banks I have referred to are
21 not allowed to use the words "bank" or "banking" or
22 "banker", and if they are not allowed to use the words,
23 they are not supposed to do the operation, because
24 it is not the word the act has in view, but the
25 operation. So, an institution that does operations
26 that are essentially banking becomes a bank in fact.
27 So, I believe the implications would be that any
28 institution who would like to be called a bank would
29 have to follow the provisions of the statute that
30 requires them to send statements to the government to

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1 receive the control of the Inspector General and
2 pay taxes like those who act as such. I believe the
3 advantage of these definitions would be to clarify
4 a situation that is most confused. You would have
5 a definition of "banks" and also of "banking operation",
6 and you would know who falls under the supervision
7 of that statute, and I believe that is the key to
8 the whole situation.

9 THE CHAIRMAN: If I understand you correctly,
10 I rather get this impression, that the earmark of
11 banking is the circulatory aspect of its operations --
12 the circulation of money ...?

13 MR. VANIER: Yes, if you use deposits and
14 give it to another one -- well, you certainly act as
15 an intermediary because a saver could not find a
16 borrower by himself, and the bank does that.

17 THE CHAIRMAN: And to do so the bank must
18 be highly liquid?

19 MR. VANIER: Certainly.

20 THE CHAIRMAN: And its deposits are such
21 that they give rise to the circulation of credit?

22 MR. VANIER: Yes.

23 THE CHAIRMAN: I don't know whether that is
24 an accurate way of putting it.

25 MR. VANIER: Well, to a certain extent.

26 COMMISSIONER GIBSON: Let me have a try.
27 Would this be fair, to summarize what you have been
28 telling us: That the two essential things about
29 banking are, one, the use of the chequing privilege
30 and, two, the acceptance of deposits which are either



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26 COMMISSIONER DEBSON: Let me have a try.
27 Would this be fair, to summarize what you have been
28 telling us: That the two essential things about
29 and, two, the acceptance of deposits which are either



1 legally or in fact payable on demand?

2 MR. VANIER: No, I would not say a deposit
3 in itself is banking, because I can go to any institution
4 and say, "I have a loose \$5,000. Would you take care
5 of it?", and I might go this afternoon and take it
6 back, or in one month. The deposit is not banking,
7 in my view. It is the fact that after having deposited
8 the money the institution uses it for credit to other
9 people; it is the use of that deposited money for
10 other purposes under the responsibility of the financial
11 institution that makes it a banking operation.

12 COMMISSIONER GIBSON: But you also put
13 emphasis on the demand character of the obligation --
14 savings entrusted. You said earlier a fixed term
15 deposit would be something different, and in your
16 definition here you talk about the extension of
17 credit to the public out of savings deposited for
18 safe-keeping.

19 MR. VANIER: Yes.

20 COMMISSIONER GIBSON: And in elaborating on
21 that you said you thought that would probably leave out
22 time instruments like fixed term deposits?

23 MR. VANIER: Yes.

24 COMMISSIONER GIBSON: So you do put quite
25 a lot of emphasis on the demand nature of the obligation
26 as one of the features, don't you?

27 MR. VANIER: I don't give these things
28 as perfect suggestions. I thought it would open up a
29 discussion, and I see that it has. I believe you could
30 improve on that. I am speaking to experts, so I am



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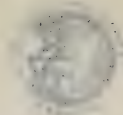
2 THE CHAIRMAN: No. We regard you as the
3 expert.

4 MR. VANIER: Thank you, Mr. Chairman. I
5 believe you can improve on that -- I believe there is
6 something in that -- that if you put something in the
7 definition which includes something that would meet
8 the aspect emphasized by Mr. Leman and Mr. Gibson,
9 I believe it would improve the definition. If the
10 demand money is used for credit purposes, then it
11 becomes more clearly a banking operation. It would
12 be demand money deposited for safe-keeping. I believe
13 there we are coming closer to the point.

14 MR. RAINVILLE: It might be for a short term.
15 With a lot of deposits, the term does not exceed one
16 year.

17 COMMISSIONER BROWN: Certainly, all the way
18 through we have been getting definitions of what is
19 not banking. Everybody says they are not banking.
20 But, the difficulty is to find something which says,
21 "This is banking".

22 MR. VANIER: If we accept definitions of
23 this sort -- and there may be others -- and I take the
24 responsibility for suggesting a couple of them that
25 are not perfect, but are, I believe, quite close to
26 what it should be, then it would be easy to define
27 a banker if we know what a banking operation is, because
28 it would be an institution which does banking operations.
29 The Act says now that a bank is a bank, and I think
30 this is satisfactory, but it would be an improvement to



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MR. VANTER: Thank you, Mr. Chairman. I

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- 1889 -

Toronto, Ontario

1 say that a bank is an institution that does banking
2 operations provided that "banking operations" is
3 defined in the statute.
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1 I believe if we have a good definition of "bank"
2 and a good definition of "banking operations" then
3 the inferences will be very easy to draw.

4 COMMISSIONER LEMAN: This is interesting,
5 Mr. Vanier, because as I said before these exchange
6 acts say that a cheque is an order for payment drawn
7 on a bank, and since we do not know what a bank is,
8 we do not know what a cheque is either, do we?

9 MR. VANIER: We use them though.

10 COMMISSIONER BROWN: Perhaps we should start
11 this whole thing by defining "cheque".

12 THE CHAIRMAN: Just before we leave this
13 subject, Mr. Vanier, you suggest that there should be
14 a definition in the Act. Is our problem not this:
15 To determine what is a bank within the meaning of the
16 section in the British North America Act, which uses
17 the expression "banking"? That is, what is "banking"
18 within the meaning of the British North America Act?
19 Because, if we attempt to define a bank, or banking
20 in a federal statute by federal statute and we are
21 not concerned with the meaning of "banking" in the
22 British North America Act, it would not be of much
23 use. I do not think that has ever been defined.
24 I think one of our difficulties is that the term
25 "bank" as used in the British North America Act has
26 never fully been dealt with by legal decision. There
27 have been some cases which suggested that certain
28 operations were banking operations but they have never
29 really attempted to define what is a "bank", nor
30 these various possible activities that would be



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1 included in that operation.

2 Our terms of reference limit us to matters
3 that are within federal jurisdiction and there is a
4 very blurred distinction between what comes within
5 federal jurisdiction as to banking and what would come
6 within provincial jurisdiction as to some type of
7 money lending. That might merely be property and
8 civil rights, and we cannot determine that because
9 we are not a court.

10 MR. VANIER: I quite agree, Mr. Chairman, but
11 we are discussing the various types of institutions,
12 and the confusion that has developed, so I believe it
13 is within the province of your Commission to try to
14 put some order into this situation to clarify it.

15 THE CHAIRMAN: I agree with you fully in
16 that regard but there is some difficulty in putting it
17 in precise form in the federal statute. There may
18 be some difficulty arising, however, it may be that
19 it can be done up to a point, and that might be very
20 useful.

21 MR. VANIER: I am sorry, gentlemen, that I
22 have taken you away from our brief as the result of
23 certain personal interjections.

24 THE CHAIRMAN: No, Mr. Vanier, this is the
25 sort of discussion we have been looking for. We have
26 had it to some extent with others but not quite as
27 fully as we have had with you, and we very much
28 appreciate that you have raised this point because it
29 is a very important one from our point of view.

30 MR. VANIER: Thank you.

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MR. VANIER: Thank you.



1 COMMISSIONER LEMAN: I would like to ask
2 a question, Mr. Vanier, by reference to paragraph 6
3 of the brief where you do talk about capitl market.
4 You make some reference there to what you call "alloca-
5 tion of resources" in the economy. I am wondering
6 what sense you used that expression in the brief.

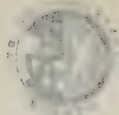
7 MR. VANIER: If you will allow me, I do not
8 want to monopolize this discussion, so I will leave
9 this to Mr. Rainville to answer.

10 MR. RAINVILLE: The way we understood this
11 was that perhaps some organization in government would
12 like to allocate reserve resources to the level of
13 industry in order to help certain sectors of the
14 economy. Of course, other sectors would be deprived
15 of the necessary resources if you re-allocated them
16 and there is continuing changes. Then the sector
17 which had been deprived would stay in that position
18 for quite a long time before the thing is rectified
19 because the more you intervene the worse it becomes.
20 That is the way we thought in this regard, and I
21 think that explanation should about cover the subject.

22 COMMISSIONER LEMAN: You are referring to
23 what government might do by giving credit to special
24 sectors of the economy?

25 MR. RAINVILLE: At the expense of other
26 sectors.

27 COMMISSIONER LEMAN: You would not call it
28 an allocation of resources if the allocation happened
29 to be accomplished through the working of the free
30 market, is that right?



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30 market, is that right?



1 MR. RAINVILLE: No.

2 COMMISSIONER LEMAN: Now I should like to
3 talk a little bit about your section entitled "Liquidity
4 and Cash Management". If we look at your submission
5 we see that 62 items in the assets there; well, let
6 us take the Montreal banks to start with, and that
7 is Schedule II.

8 COMMISSIONER BROWN: At page 56.

9 COMMISSIONER LEMAN: At page 56, Schedule II.
10 If we refer at the same time to paragraph 34 of the
11 brief, where there is a cross reference which you
12 make to Schedule II, we see that you explain in paragraph
13 34(b) that the excesses in item 1 of Schedule II over
14 the prescribed 5 per cent cash reserve plus that
15 portion of item 2 which can be properly accounted on
16 as part of the secondary reserve, etc. That is a
17 little bit puzzling to me. What is the portion of
18 item 2 that can be properly counted as part of the
19 secondary reserve?

20 MR. RAINVILLE: The actual cash we have in
21 our tills and things like that, because in item 2
22 are included the cheques drawn on us and the other
23 banks, and they can be counted as a reserve. I
24 refer to the cheques that we have in clearing, for
25 example, which are not cleared yet. We may have
26 \$1 million, \$2 million or perhaps more in cheques
27 that we have paid during the day and at closing time
28 we still have those cheques. They are not actual
29 cash but they can be counted as a reserve. They are
30 cheques drawn on us that have not been charged to the

MR. RAINVILLE: No.

COMMISSIONER LEMAN: Now I should like to

take a little bit about your section entitled "Liquidation and Cash Management". If we look at your submission we see that 62 items in the assets there: well, let us take the Montreal banks to start with, and that is Schedule II.

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MR. RAINVILLE: The actual cash we have in our tills and things like that, because in item 2 are included the cheques drawn on us and the other banks, and they can be counted as a reserve. I refer to the cheques that we have in clearing, for example, which are not cleared yet. We may have \$1 million or perhaps more in cheques that we have paid during the day and at closing time we still have those cheques. They are not actual



1 bank accounts of the depositors. They are included
2 in that figure, but there is also a large amount of
3 Bank of Canada notes and money in that \$12 million
4 figure, so that can be counted. That is what we
5 meant.

6 COMMISSIONER LEMAN: What I would like
7 clarified is this: Would you say that item 1 is
8 clearly all part of the primary reserve?

9 MR. RAINVILLE: Not all of it; 5 per cent
10 of the deposits. We have \$257 million on deposit.
11 5 per cent of that is about \$12,500,000, or \$13 million.
12 We have \$21 million in the first figure there in
13 excess of the \$8 million there. This can be counted
14 in the 15 per cent.

15 COMMISSIONER LEMAN: That is right, but
16 all of item 1 qualifies as the type of assets that
17 can form the primary reserve?

18 MR. RAINVILLE: Yes.

19 COMMISSIONER LEMAN: Now, a part of item 2
20 can also be part of the primary reserve?

21 MR. RAINVILLE: Exactly, yes.

22 COMMISSIONER LEMAN: A part of it qualifies
23 for secondary reserve?

24 MR. RAINVILLE: Yes.

25 COMMISSIONER LEMAN: Now, how much of that
26 item 1 would you say as of that date was assets qualifying
27 for primary and assets qualifying only for secondary?

28 MR. RAINVILLE: Perhaps Mr. Audet will answer
29 that.
30



1 COMMISSIONER BROWN: Further than that,
2 the reference you made, Mr. Leman, indicates that
3 only part of item 2 can be counted as secondary
4 reserve.

5 COMMISSIONER LEMAN: Yes.

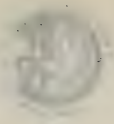
6 COMMISSIONER BROWN: So some of it
7 does not count as any reserve at all.

8 MR. RAINVILLE: We usually have from
9 \$4 million to \$5 million in notes. We are trying
10 to find the exact figure on that.

11 COMMISSIONER BROWN: Why would not those
12 notes be in item 1?

13 MR. RAINVILLE: Well, that is true,
14 they are in item 1.

15 MR. AUDET: In item 2 we have some
16 deposits in the banks which are in United States
17 currency and they cannot be counted in item 1.
18 The Act, of course, says that the 5 per cent cash
19 reserve has to be in Canadian currency. Of course,
20 we have in item 2 the outgoing clearings; we have,
21 of course, bonds matured and coupons which are
22 still in the teller's cash in the branches.
23 That is considered, of course, cash because at the
24 time of closing then Brinks will have these effects
25 and put them through clearing, but it is really
26 cash. So at the time of closing it would be an out-
27 going clearing; what remains in the teller's cash
28 in matured bonds and coupons and all these things
29 because, as you know, at the end of each month
30 a large amount of matured bonds are deposited, as



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we have in item 2 the outgoing clearing; we have, of course, bonds matured and coupons which are

still in the balance sheet as an asset.

That is considered, of course, cash because at the time of closing then banks will have these effects

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1 well as coupons. These are all in item 2.

2 COMMISSIONER LEMAN: What I was suggesting
3 is that it does not have much importance in this
4 case because as of that date you obviously have
5 a primary cash account way above your statutory
6 limit. I am suggesting that if we look at such
7 statements and if you were closer to your minimum,
8 we would not know what the real margin is the way
9 these two items are shown.

10 MR. RAINVILLE: Providing item 1 complies
11 with the requirement of the law.

12 COMMISSIONER LEMAN: Yes.

13 MR. RAINVILLE: If we had \$260 million
14 at the end of the fiscal year, the law says 5 per
15 cent, which is \$13 million, one can see that we have
16 much in excess of the \$13 million in item 1, which
17 is the item which should give the supply limitation.

18 COMMISSIONER LEMAN: So we would not know
19 how much above that you are?

20 MR. RAINVILLE: Yes.

21 COMMISSIONER LEMAN: That is, by looking
22 at these two items, so that I think what Mr. Vanier
23 said in his opening remarks as well as is stated
24 in paragraph 119, explains that you have been working
25 on the average at a 10 per cent cash reserve.

26 MR. RAINVILLE: Yes.

27 COMMISSIONER LEMAN: Rather than the 5 per
28 cent which is the statutory limit.

29 MR. RAINVILLE: That is quite true, yes.
30



Those are all in item 2.

COMMISSIONER LEMAN: What I was suggesting

is that it does not have much importance in this

case because as of that date you obviously have

a primary cash account way above your statutory

limit. I am suggesting that if we look at such

statements and if you were closer to your minimum,

we would not know what the real margin is the way

these two items are shown.

MR. RAINVILLE: Providing item 1 complies

with the requirement of the law.

COMMISSIONER LEMAN: Yes.

MR. RAINVILLE: If we had \$50 million

at the end of the fiscal year, the law says I can

cut, which is \$13 million, one can see that we have

much in excess of the \$13 million in item 1, which

is the item which should give the supply limitation.

COMMISSIONER LEMAN: So we would not know

how much above that you are?

COMMISSIONER LEMAN: That is, by looking

at these two items, so that I think you're right.

said in his opening remarks as well as is stated

in paragraph 12, explaining that you have been working

on the average at a 10 per cent cash reserve.

COMMISSIONER LEMAN: Rather than the 5 per

cent which is the statutory limit

MR. RAINVILLE: That is quite true, yes.



1 MR. RAINVILLE: That is quite true, yes.

2 COMMISSIONER LEMAN: What makes you feel
3 that 10 per cent is a good figure, and how much
4 fluctuation has there been, let us say, over the
5 last ten years or some other recent period, in
6 the actual reserve?

7 MR. AUDET: I would say the fluctuations
8 have been narrow. We have always felt it has been
9 good banking practice, and I think all through the
10 years of banking it has been considered that a 10 per
11 cent cash reserve has been enough to supply the
12 possible withdrawals by depositors.

13 COMMISSIONER LEMAN: You have seen that?

14 MR. AUDET: We have. We do not need that
15 much money.

16 MR. VANIER: But we keep it.

17 COMMISSIONER GIBSON: This is what chartered
18 banks used to do.

19 MR. RAINVILLE: 8 per cent.

20 COMMISSIONER GIBSON: Before that came
21 into effect 10 per cent was the approximate cash
22 ratio. You follow in a rather similar way in this
23 regard what they used to do.

24 MR. AUDET: That is quite true.

25 THE CHAIRMAN: The 5 per cent must be
26 kept at all times.

27 MR. RAINVILLE: Yes.

28 THE CHAIRMAN: You would get into difficulty
29 otherwise, but this extra five per cent gives you
30 something extra?



MR. RAINVILLE: That is quite true, yes.

COMMISSIONER LEWIS: What makes you feel

that 10 per cent is a good figure, and how much

fluctuation has there been, let us say, over the

last ten years or some other recent period, in

the actual reserves?

MR. ADNET: I would say the fluctuations

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good banking, excellent, and I think all through the

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COMMISSIONER LEWIS: You have seen that?

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ratio. You follow in a rather similar way in this

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MR. ADNET: There is quite some

THE CHAIRMAN: The 7 per cent must be

kept at all times.

MR. RAINVILLE: Yes.

THE CHAIRMAN: You would get into all this

discussion, but what would the law be? Give you



1 MR. RAINVILLE: The $7\frac{1}{2}$ or 8 per cent
2 ratio would be satisfactory.

3 THE CHAIRMAN: We shall now adjourn for
4 ten minutes.

5 --- Short recess.

6 --- After recess.

7 THE CHAIRMAN: We shall now resume.

8 COMMISSIONER GIBSON: Mr. Vanier, before
9 the recess we were talking about the cash reserve
10 practices of the two Quebec city banks. I should
11 like to follow along this customary 10 per cent
12 ratio that you follow just a little further. I
13 should also like to get your views on the way
14 that the minimum required cash reserve is calculated.

15 First of all, with regard to the 10 per
16 cent customary reserve, I think one of the witnesses
17 said that it did not vary a great deal.

18 MR. VANIER: Yes.

19 COMMISSIONER GIBSON: Is this correct or
20 does it go up 2 or 3 per cent and down 2 or 3 per
21 cent?

22 MR. VANIER: I think I will ask Mr. Audet
23 to give you further information in that respect.

24 MR. AUDET: It may vary at certain periods
25 of the year.

26 COMMISSIONER GIBSON: Or when money is
27 a bit tight it might go down a bit and go up again
28 later?

29 MR. AUDET: Yes, but usually we do operate
30 on this minimum of 10 per cent.



1 THE CHAIRMAN: We shall now adjourn for

2 ten minutes.

3 --- After recess.

4 the recess we were talking about the cash reserve
5 practices of the two Quebec city banks. I should

6 ratio that was not on just a little further. I

7 should also like to get your views on the way

8 that the minimum required cash reserve is calculated

9 First of all, with regard to the 1 per

10 cent statutory reserve, I think one of the witnesses

11 said that it did not vary a great deal.

12 COMMISSIONER GIBSON: I am not sure of

13 does it go up or down 2 or 3 per

14 cent?

15 MR. VANIER: I think I will ask Mr. Angus

16 to give you further information in that respect.

17 MR. ANGUS: It may vary at certain periods

18 of the year.

19 COMMISSIONER GIBSON: Or when money is

20 a bit tight is it to go down a bit and go up a bit

21 MR. ANGUS: Yes, but usually we have a



1
2 COMMISSIONER GIBSON: But you would not
3 be concerned if for a short period it went down to
4 8 per cent ?

5 MR. AUDET: We would never allow it to
6 go to 8 per cent.

7 COMMISSIONER GIBSON: Are you talking
8 about the cash ratio or the cash plus the items
9 figured in item 2?

10 MR. AUDET: I am talking about the cash.

11 COMMISSIONER GIBSON: Just cash that is
12 deposited with the Bank of Canada and chartered banks,
13 and with your tellers?

14 MR. AUDET: Yes.

15 COMMISSIONER GIBSON: I made a few
16 calculations in regard to it and it seemed to me
17 that it did vary a bit from one statement to the
18 other.

19 MR. FOUCAULT: In our case it might go
20 down to 6 per cent; but we never allow it to go
21 below 6 per cent.

22 COMMISSIONER GIBSON: It might go up
23 as well?

24 MR. FOUCAULT: It might go up to 8 or 9
25 in certain circumstances, yes.

26 COMMISSIONER BROWN: In the Quebec Savings
27 Banks you do not hesitate to borrow from the
28 chartered banks to bring it up?

29 MR. FOUCAULT: We would borrow from the
30 chartered bank to keep the deposit, covering the
shortage that may happen once in a while.



1 COMMISSIONER BROWN: We noticed that at
2 December 31st your cash in item 1 was only \$3,100,000
3 and, of course, there would be a portion of item 2
4 in that category as well.

5 MR. FOUCAULT: Yes.

6 COMMISSIONER BROWN: We do not know how
7 much of item 2 falls in that category, but your
8 advances from chartered banks were \$2,600,000, so
9 most of your cash was made up in borrowings from
10 chartered banks?

11 MR. FOUCAULT: We do as a practice keep
12 \$1 million in deposit accounts for the cash reserve
13 because we do not need so much cash in our tills
14 due to the fact that the bank is not as big as the
15 Montreal District Savings Bank, and our requirement
16 would not be as heavy as in Montreal on this account.

17 COMMISSIONER BROWN: I missed one phrase
18 there. You say you keep \$1 million where?

19 MR. FOUCAULT: On deposit with the bank
20 in account with cash reserve.

21 COMMISSIONER GIBSON: You examine your
22 cash position every day?

23 MR. FOUCAULT: Every day, yes, and we
24 have to report every day on a monthly basis.

25 COMMISSIONER GIBSON: Just as the chartered
26 banks do?

27 MR. FOUCAULT: Yes, exactly.

28 COMMISSIONER GIBSON: This leads to the
29 other question. You calculate your required minimum
30 cash reserve quite differently from the chartered

We noticed that a

in that category as well.

COMMISSIONER GIBSON: Do you not know how

much of item 2 falls in that category, but your
advances from chartered banks were \$2,600,000, so
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banks do?

MR. FOUCAULT: Yes, exactly.

COMMISSIONER GIBSON: This leads to your

other question. You calculate your required minimum
cash reserve quite differently from the chartered



1 banks. . The chartered banks are permitted to
2 average in working out their 8 per cent. This
3 is a daily average for the month, but you simply
4 cannot go below the 5 per cent figure at any time,
5 this is correct, is it not?

6 MR. FOUCAULT: Yes, that is true.

7 COMMISSIONER GIBSON: Do you find this
8 satisfactory?

9 MR. FOUCAULT: Yes.

10 COMMISSIONER GIBSON: Did you make any
11 representations about it at the last revision of
12 your Act?

13 MR. FOUCAULT: No.

14 COMMISSIONER GIBSON: Would you see
15 any merit in doing anything on the same basis; that
16 is as the chartered banks ratio is calculated?
17 Is there any reason for having it different, let
18 us say? I am not talking about the percentage.
19 I am talking about the way it is calculated. They
20 have an average minimum.

21 MR. AUDET: The fact that we keep such
22 a comfortable margin gives us the feeling that we
23 would not require any change.

24 COMMISSIONER GIBSON: In other words
25 it does not make much difference to you?

26 MR. AUDET: No, not much.

27 MR. FOUCAULT: No.

28 COMMISSIONER GIBSON: But if the ratio
29 was higher it would be a different matter?

30 MR. AUDET: Yes, definitely, because then



average in working out their 3 per cent. This
is a daily average for the month, and you might
cannot go below the 5 per cent figure at any time,
this is correct, is it not?

MR. FOWLER: Yes, that is correct.

COMMISSIONER GIBSON: Do you find this

satisfactory?

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your Act?

MR. FOWLER: No.

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MR. ALBERT: The fact that we keep such

a comfortable margin gives us the feeling that we
would not require any change.

COMMISSIONER GIBSON: In other words

it does not make much difference to you?

MR. ALBERT: No, not much.

MR. FOWLER: No.

COMMISSIONER GIBSON: But if the ratio

was higher it would be a different matter?



1 we would have to stick to the higher minimum, if
2 it would be such. As it is now we do not see any
3 need for it being changed.

4 COMMISSIONER GIBSON: But you do not see
5 any particular merit in having it different either,
6 do you?

7 MR. AUDET: No.

8 COMMISSIONER GIBSON: If it were the
9 same there would be no particular objection to that,
10 I take it?

11 MR. RAINVILLE: I do not think it would
12 be a good thing because we would have to keep a
13 higher minimum. We have 10 per cent now and
14 we could have 8 per cent without difficulty,
15 but if we had to maintain an 8 per cent minimum
16 we would have to keep it at 10 per cent, 11 per
17 cent or perhaps 12 per cent.

18 COMMISSIONER GIBSON: I was not suggesting
19 a change in the minimum, I was talking about the
20 way the minimum is calculated.

21 MR. RAINVILLE: Yes.

22 COMMISSIONER GIBSON: In other words if
23 you did it the way the chartered banks do you would
24 be allowed to average your daily position by the
25 month in arriving at your minimum 5 per cent.

26 MR. RAINVILLE: Yes.

27 COMMISSIONER GIBSON: But the way it is
28 now you just cannot go below 5 per cent?

29 MR. RAINVILLE: That is right.

30 COMMISSIONER GIBSON: I was wondering if



1 there was any particular reason for having it that
2 way, or having it done a different way.

3 MR. RAINVILLE: No, sir.

4 COMMISSIONER GIBSON: This leads me to
5 the next question. You think that the cash ratio
6 requirement for the two savings banks should be
7 lower than that for chartered banks, is that correct?

8 MR. RAINVILLE: Yes.

9 COMMISSIONER GIBSON: What are your grounds
10 for that statement?

11 MR. RAINVILLE: Of course they have to
12 meet higher commitments than we do because they
13 have current accounts and there may be large
14 withdrawals. We do not have that in the same
15 proportion at all.

16 COMMISSIONER GIBSON: You would otherwise
17 say, as a matter of common sense, cash requirements
18 for savings deposits would not necessarily have
19 to be as for demand deposits?

20 MR. RAINVILLE: That is true.

21 COMMISSIONER GIBSON: Well, would that
22 itself then lead you to another general idea about
23 how this cash business should be, let us say,
24 related to the fact that you have savings deposits?

25 MR. RAINVILLE: Yes, I would say that.
26 I believe in United States they have studied this
27 question and have thought that for commercial banks
28 the reserve requirement on savings deposits should
29 be lower than on the other deposits.

30 COMMISSIONER GIBSON: I think this is the

There was any particular reason for having it that way, or having it done a different way.

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MR. GIBSON: I think this is the



1 logic of it; if you think the savings bank requires
2 lower cash then it is really savings deposits that
3 you are thinking about?

4 MR. RAINVILLE: Yes, sir.



1 COMMISSIONER GIBSON: You don't have any
2 particular suggestions that you want to make about
3 this; you don't feel strongly about it?

4 MR. TURGEON: No, we would have to keep
5 a reserve anyway even if it is not required by law.
6 We need a reserve.

7 COMMISSIONER GIBSON: Just one other point
8 on this matter; you think that 5 per cent is a
9 reasonable minimum?

10 MR. TURGEON: Yes.

11 COMMISSIONER GIBSON: And that there is
12 no reason for having a higher legal minimum, and yet
13 you, in fact, keep something close to ten?

14 MR. TURGEON: Yes.

15 COMMISSIONER GIBSON: Would you just explain
16 your answer there a little more?

17 MR. TURGEON: We have to keep a margin of,
18 say, 2 per cent and then we have commitments for
19 mortgages, for example; we may have \$8 million or
20 \$9 million or \$10 million in commitments.

21 COMMISSIONER GIBSON: But you have them in
22 Treasury Bills or day money, that would be almost the
23 same, wouldn't it?

24 MR. TURGEON: Yes. There might be at the
25 end of each month, or the middle of the month, a certain
26 amount of withdrawals, \$4 million or \$5 million, so
27 we have to be ready for that.

28 COMMISSIONER GIBSON: In other words, you
29 are pretty conservative in your margins?

30 MR. TURGEON: Yes, we have to be.



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are pretty conservative in your margins?

MR. TURBON: Yes, we have to be.



1 MR. VANIER: We agree.

2 MR. TURGEON: We prefer to be on the safe
3 side.

4 COMMISSIONER BROWN: You can keep this cash
5 either on deposit with the Bank of Canada or with a
6 chartered bank?

7 MR. TURGEON: That is right.

8 COMMISSIONER BROWN: In fact, you keep it
9 almost all in the chartered bank?

10 MR. TURGEON: Yes.

11 COMMISSIONER BROWN: Why?

12 MR. TURGEON: Because they pay interest.

13 COMMISSIONER BROWN: That is what we wanted
14 to find out. What rate of interest do you get on this;
15 it is not mentioned anywhere?

16 MR. TURGEON: That is true. Well, it varies,
17 of course, and this is on current deposits.

18 MR. AUDET: Yes, current deposits. There are
19 two services on deposits, on which we get $3\frac{1}{4}$ per cent
20 on 90-day certificates and $3\frac{1}{2}$ and $3-3/4$. On these
21 rates, of course, we have the alternate; either, as
22 Mr. Gibson mentioned, buying Treasury Bills, investment
23 in day money or deposit with chartered banks, so in
24 choosing these alternates we try to get the most
25 advantageous so if we find that we have a certificate
26 of deposit in a commercial bank, well, we can do that.
27 Of course, it does reflect itself in the cash reserves
28 and might show an unusual cash reserve. If it had been
29 a Treasury Bill it would have been included in Government
30 of Canada bonds.



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1 COMMISSIONER BROWN: Then, some of this
2 cash reserve is really a 90-day deposit?

3 MR. AUDET: Yes.

4 COMMISSIONER BROWN: In other words, you
5 can't get at it for 90 days?

6 MR. AUDET: Yes, we do.

7 COMMISSIONER BROWN: What do you mean, you
8 do; you can get at it?

9 MR. AUDET: Yes, we could.

10 MR. TURGEON: But we wouldn't get the same
11 rate of interest.

12 COMMISSIONER BROWN: As the 90-day deposit,
13 but you have the right of withdrawal and taking no
14 interest?

15 MR. TURGEON: That is right.

16 COMMISSIONER BROWN: What percentage would
17 you carry in these deposit rates, 5 per cent? Would
18 that be your 5 per cent reserve, in fact?

19 MR. AUDET: Of course, in the cash reserve
20 we have the balance in the Bank of Canada where we
21 maintain an average of about \$2 million. We have
22 current accounts in commercial banks where we keep
23 about, I would say, \$3 million, and the rest would be
24 in certificates of deposits.

25 COMMISSIONER BROWN: With chartered banks?

26 MR. AUDET: Yes.

27 COMMISSIONER BROWN: Why would you keep the
28 current account with the chartered bank?

29 MR. AUDET: Well, being more liquid we prefer
30 to get a lower rate of interest, but we could draw on



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MR. AUDET: Yes.

COMMISSIONER BROWN: Why would you keep the

current account with the chartered bank?

MR. AUDET: Well, being more liquid we prefer

to get a lower rate of interest, but we could draw on



1 this at the end of each month because the interest is
2 payable on the minimum monthly balance.

3 COMMISSIONER BROWN: What sort of a rate
4 do you get on those?

5 MR. AUDET: $2\frac{1}{2}$ per cent.

6 COMMISSIONER GIBSON: Some of your cash is,
7 in fact, earning a very nice profit?

8 MR. VANIER: The commercial banks like that
9 very much.

10 MR. TURGEON: They offer the same services,
11 and there are collection charges and things like that;
12 we get repaid on the collection charges.

13 COMMISSIONER GIBSON: There is not too much
14 difference in some of the items under that Item 2
15 and the ones in Item 1. I take it that you have some
16 Treasury Bills in Item 2?

17 MR. AUDET: Any Treasury Bills would be
18 included in the Government of Canada bonds. What is
19 in Item 2 -- sometimes we find it advantageous to
20 take certificates of deposit in U.S. currency. If
21 the rate is by way of a swap we will take it and, of
22 course, the 5 per cent minimum cash reserve required
23 by law is mentioned in Canadian currency, so we
24 can't calculate that in No. 1, it has to be in No. 2.

25 COMMISSIONER GIBSON: What I am trying to
26 get at is what would you refer to as your sort of
27 working liquid ratio of highly liquid assets?
28 You have the cash in the form of deposits, deposits
29 with the chartered bank and you have some Treasury
30 Bills, some loans and items on clearing. What else is



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payable on the minimum monthly balance.
this at the end of each month because the interest is



1 there? That is about it? What would the ratio be?

2 MR. AUDET: We have the current accounts,
3 which are quite liquid.

4 COMMISSIONER GIBSON: With banks?

5 MR. AUDET: Yes.

6 COMMISSIONER GIBSON: That is part of your
7 cash?

8 MR. AUDET: Yes, and on the certificates of
9 deposits we have different terms; we may have some
10 for 90 days and longer.

11 COMMISSIONER GIBSON: What would you say
12 you would have in highly liquid assets, would it be
13 15 per cent, something like that; the short date,
14 highly liquid assets?

15 MR. AUDET: I would say 15 per cent, yes,
16 because you have to consider the day-to-day money.

17 COMMISSIONER BROWN: Where does the day-to-
18 day money appear on this balance sheet? What item?

19 MR. AUDET: It is under loans.

20 COMMISSIONER BROWN: Under Item 10?

21 MR. AUDET: Yes, secured loans.

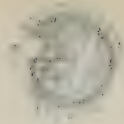
22 COMMISSIONER BROWN: It is not broken down.
23 So, that is another concealed liquid asset, really?

24 MR. AUDET: Yes.

25 COMMISSIONER BROWN: The extent to which your
26 secured loans are shown?

27 MR. AUDET: Quite true.

28 COMMISSIONER GIBSON: Your statement here
29 doesn't show what the banks call their cash and highly
30 liquid assets?



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1 MR. AUDET: No.

2 COMMISSIONER GIBSON: It doesn't come out
3 that way here.

4 MR. AUDET: No, that is true, but this is
5 their prescribed form.

6 COMMISSIONER GIBSON: And this is because
7 you don't have this daily cash averaging with the
8 Bank of Canada, I suppose?

9 MR. AUDET: Yes. I suppose we have under-
10 estimated our real position if we don't show our real --
11 if it doesn't show ---

12 COMMISSIONER GIBSON: I think that you under-
13 state your real liquid position.

14 MR. AUDET: Yes.

15 COMMISSIONER GIBSON: At least, you don't show
16 it here.

17 MR. AUDET: No.

18 COMMISSIONER LEMAN: Stemming from that,
19 I am wondering if you have ever thought this way of
20 looking at cash reserves; you have stated before that
21 in fact you considered all your deposits as savings
22 deposits and all subject to chequing; they are all
23 demand deposits despite the fact that they perform
24 like savings deposits, and that is what you have
25 explained to us as a general statement.

26 Would you say, to define this question of
27 ratio reserves a bit more, would you say there is
28 some possibility of savings deposits improving their
29 earning capacity by having a more elaborate cash
30 reserve or liquid reserve and not considering all



Financial Committee

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1 your deposits as necessarily demand deposits and
2 making arrangements for getting better interest rates
3 on deposits and having the whole scale of types of
4 deposits with different reserve rates for each type.

5 MR. VANIER: We are asking for an extension
6 of the privilege to lend on mortgages. You see, we
7 would like to increase the possibility of lending
8 more money on mortgages because this is really our
9 business because we act with individuals and with
10 a family who owns real estate, so we would like to
11 increase our earnings and to keep the liquid position
12 just the same so that the two would agree very well
13 together, but we are satisfied we are in a very
14 different position.

15 COMMISSIONER LEMAN: You don't want to
16 complicate your deposit structure; is that it?

17 MR. VANIER: No.

18 COMMISSIONER GIBSON: Would the practice
19 of the Quebec Savings Banks, Mr. Turgeon, in this
20 regard be quite similar to the Montreal City?

21 MR. TURGEON: Yes, similar.

22 COMMISSIONER GIBSON: Do you think in terms of
23 about the same ratios?

24 MR. TURGEON: Yes.

25 COMMISSIONER LEMAN: In that connection,
26 by the way, do you have any reason, based on the
27 behaviour of depositors in the Quebec District as
28 compared to the Montreal District, for the much higher
29 turnover ratio in Quebec?

30 MR. FOUCAULT: This may have happened. Our



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MR. VANIER: No.

COMMISSIONER GIBSON: Would the practice

of the Quebec Savings Banks, Mr. Turgeon, in this

regard be quite similar to the Montreal City?

MR. TURGEON: Yes, similar.

COMMISSIONER GIBSON: Do you think in terms of

about the same ratios?

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compared to the Montreal District, for the much higher

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MR. BOUCAULT: This may have happened. Our



1 average deposit may be less than the Montreal District
2 Savings Bank, and we have found out that when un-
3 employment occurs our withdrawals are heavier and
4 this is a case where it may happen that the withdrawals
5 are heavier in Quebec than in Montreal.

6 COMMISSIONER LEMAN: What you are explaining
7 here is that the average depositor, perhaps a smaller
8 family depositor, needs more of his savings to pay
9 for his daily living costs?

10 MR. FOUCAULT: Yes.

11 COMMISSIONER LEMAN: So there is less true
12 savings in that sense?

13 MR. FOUCAULT: A certain ---

14 COMMISSIONER LEMAN: Less savings in your
15 deposits?

16 MR. FOUCAULT: A certain type of depositor
17 may keep less money in the bank in the Montreal District.

18 COMMISSIONER GIBSON: I would like to ask a
19 few questions about the structure of your assets and
20 looking at the period of the last seven years, 1954 to
21 1961, and putting quite a few of these figures together
22 it seems there has been a quite radical change in the
23 nature of the assets of the two banks from the joint
24 tolls.

25 Your holdings of Government of Canada bonds
26 are down substantially; your municipal bonds are
27 down substantially and, indeed, your sub-total of
28 securities is down from about 80 per cent of the total
29 to 58 per cent, and on the other side of this there
30 is a great increase in your mortgage business; it has



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to 52 per cent, and on the other side of this there
is a great increase in your mortgage securities; it has



1 gone from 4 per cent for conventionals to 20 per cent
2 and from 1 per cent for N.H.A. to 3 per cent now,
3 and there is also a modest increase in unsecured loans
4 from 1 per cent to $2\frac{1}{2}$ per cent.

5 Now, this suggests a change in the character
6 of the whole savings bank operation. Now, I would
7 first like to ask you is this roughly the same for
8 the two banks or are you pursuing different courses
9 in this respect?

10 MR. FOUCAULT: We have been granted the
11 right to make conventional mortgages since 1957 only,
12 and this is what happened at that time and that is
13 why the change happened in the Government's holdings --
14 since 1928, as a matter of fact, when a larger
15 proportion came in in the last 7 or 8 years.

16 COMMISSIONER GIBSON: From 1954 on it shows
17 a very high increase in the proportion of conventional
18 mortgages.

19 MR. FOUCAULT: That is right. We have been
20 exploring that heavier since we have had that privilege
21 to grant mortgages.

22 COMMISSIONER GIBSON: And both banks have
23 been moving in this same direction?

24 MR. FOUCAULT: That is right.

25 MR. VANIER: I think we have been moving
26 a little sooner than our friends on account of the
27 expansion of Montreal and there is quite a demand for
28 mortgage loans.

29 COMMISSIONER GIBSON: You are beginning to
30 look a little more like some of the British Building



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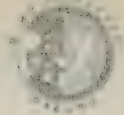
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8 in a home and besides being savers, they are interested
9 in investment in real estate, so we try to co-operate
10 with our clients in improving these requirements.

11 COMMISSIONER GIBSON: And this is the trend
12 that you see developing long into the future?

13 MR. VANIER: Yes. We have started slowly
14 because the right was given to us in 1948 and with
15 increases from year to year, so this has led us to
16 increase our investments in mortgages and we believe
17 that this is according to the line of business that
18 we are in; personal loans to a certain extent and
19 mortgage loans, which are very, very satisfactory
20 because we have no losses.

21 COMMISSIONER GIBSON: Now, did you tend to
22 move in this direction for competitive reasons because
23 you saw new opportunities?

24 MR. VANIER: It is a way of serving the
25 public; there is a demand for it and we would like to
26 have the law allow us to lend more on a value of the
27 property and to invest more of our capital in that
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1 COMMISSIONER GIBSON: You suggest, indeed,
2 having the right to go up to 60 per cent?

3 MR. VANIER: That is right.

4 COMMISSIONER GIBSON: In mortgages, and I
5 am wondering if that is not such a substantial percentage
6 that it might be more meaningful to turn it the other
7 way around and say that you ought to have a certain
8 amount of liquid assets as securities and perhaps
9 no limitation on the mortgages because it depends on
10 which side you look at it from.

11 MR. VANIER: Yes.

12 COMMISSIONER GIBSON: Is there any particular
13 reason for saying 60 per cent?

14 MR. TURGEON: Because we think it would be
15 easier to get than if we asked for the whole thing!

16 COMMISSIONER BROWN: I am trying to find
17 the place in the brief where it says what your mortgages
18 are now, and the only thing I can spot quickly is the
19 appendix where you divide it up like a pie.

20 COMMISSIONER GIBSON: It is around 24 or
21 25 per cent, isn't it?

22 COMMISSIONER BROWN: Around 25 per cent for
23 the Montreal bank and 12 per cent for the Quebec. It
24 is the total assets, not deposit liabilities, so you
25 are nowhere near the 40 per cent now.

26 MR. VANIER: We are getting nearer to it
27 and we would like to have it increased before it is
28 too late, otherwise we will stop doing business.

29 COMMISSIONER BROWN: In 1954 you were authorized
30 to go up to 20 per cent, and then in 1957 you were



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MR. VANIER: Yes.

COMMISSIONER GIBSON: Is there any particular

reason for saying 60 per cent?

MR. TURGEON: Because we think it would be

easier to get than if we asked for the whole thing!

COMMISSIONER BROWN: I am trying to find

the place in the brief where it says what your mortgages

are now, and the only thing I can spot quickly is the

appendix where you divide it up like a pie.

COMMISSIONER GIBSON: It is around 24 on

25 per cent, isn't it?

COMMISSIONER BROWN: Around 25 per cent for

the Montreal bank and 15 per cent for the Quebec. If

is the total assets, not deposit liabilities, so you

are nowhere near the 40 per cent now.

MR. VANIER: We are getting nearer to it

and we would like to have it increased before it is

too late, otherwise we will stop doing business.

COMMISSIONER BROWN: In 1974 you were authorized

to go up to 50 per cent, and then in 1977 you were



1 authorized to go up to 40 per cent. In fact, the
2 Montreal one has now got as far as 25 per cent and
3 the Quebec one is only at 12 per cent.

4 MR. VANIER: And we have got heavy commit-
5 ments for mortgages.

6 MR. AUDET: It is 21.

7 COMMISSIONER BROWN: I am looking at page
8 61 and it says 12 per cent.

9 MR. FOUCAULT: Yes, that is right.

10 COMMISSIONER BROWN: The 12 per cent is
11 correct?

12 MR. FOUCAULT: Yes.

13 COMMISSIONER BROWN: How soon do you estimate
14 at your present expansion that the Montreal bank
15 would get up to 40 per cent or close to the 40 per
16 cent?

17 MR. VANIER: Two years; 1964.

18 COMMISSIONER BROWN: How about Quebec?

19 MR. FOUCAULT: It may take longer because
20 the expansion is not as fast as in the City of Montreal,
21 but the demand that the bank is asking for in the
22 next 10 years, and according to the government's
23 rule the banking law should be revised every 10 years.

24 COMMISSIONER BROWN: You want to have lots
25 of room for flexibility?

26 MR. FOUCAULT: We would like to be able to
27 come back to the government.

28 COMMISSIONER BROWN: You don't have to, but
29 Montreal did.

30 MR. FOUCAULT: Yes.



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1 COMMISSIONER BROWN: But you were not up
2 to the 20 per cent?

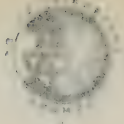
3 MR. FOUCAULT: No, no.

4 MR. VANIER: On these matters we usually
5 act jointly.

6 COMMISSIONER LEMAN: If you look at the last
7 ten years quite a lot of things have happened in the
8 last ten years and we never know, maybe a lot of things
9 will happen in the next ten years again, but what
10 interests me is that if you look at the schedule of
11 legislation dealing with savings banks that you have
12 given us as Schedule 1, there have been a lot of re-
13 openings, haven't there; 1933, 1934, 1944, and then
14 1948 and 1950, 1954 and 1957. I think that that
15 may have been a little bit of what Mr. Gibson had
16 in mind, that if conditions change -- and sometimes
17 it is difficult to look ahead 10 years -- do you
18 feel that in general the Act is a little too detailed
19 as to how you should run your business. You say, "We
20 like to get a high liquid position and that we are
21 on the average away above our ratio reserves," etc.,
22 and then the Act deals with the asset side of your
23 balance sheet in quite a lot of detail, so I think
24 that we are wondering a little bit if, in fact, you
25 wouldn't rather like a much more broad treatment of
26 your investment powers?

27 MR. VANIER: This is a way of looking at
28 it. We want increased powers even if we don't think
29 we will have to use them immediately.

30 We are not opposed to control and limitations



February 11, 1954
Federal Reserve Bank of New York

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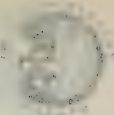
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We are not opposed to control and limitations



1 because we know we act in a field that interests the
2 whole community, and due to our respect for the
3 authorities we accept the control with pleasure
4 because we think that it is in the public interest,
5 providing the limitations are not too restrictive.

6 COMMISSIONER GIBSON: I am sure, sir, we
7 agree with your general motivation about the public
8 interest, and so on, but it is a question of what
9 is the best way to set down the principles to protect
10 the public interest. As Mr. Leman said, there are
11 quite a lot of detailed restrictions in your Act.
12 The sum of the securities are related to your capital,
13 the amounts of the securities, they are related to
14 your capital, and other limitations are related to
15 the deposit liabilities and this should be sorted out
16 and made into something simpler.



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1 MR. VANIER: I believe so. There is a
2 certain historical background to this. The banks are
3 much stronger now than they were in the past. You
4 remember a time when there were 40 banks in Canada,
5 and we have now only 8 commercial banks and 2 savings
6 banks. I believe our banking system is very good
7 as a whole, but in the first days I don't think
8 conditions were as secure as they are now, and now I
9 believe we could easily act in conformity with the
10 public interest without all the restrictions you
11 refer to, and I believe general terms may be more
12 justified because our country has developed and our
13 banking system has become much stronger than it was
14 a certain number of years ago.

15 COMMISSIONER LEMAN: You feel our banking
16 system is very good, and our near banking system not
17 so good; is that it?

18 MR. VANIER: No. I believe they are very
19 good. We have much respect for those institutions
20 called near banks provided that our positions would
21 be defined properly. We believe all of them render
22 great service to the public. We do not take a mean
23 look about that, but we think everybody should know
24 exactly where he stands and we should draw the line
25 somewhere.

26 COMMISSIONER BROWN: Talking about the
27 investment powers, in the 1954 amending act there was
28 nothing about this investment up to the 50 per cent of
29 capital in reserves. That came in in the 1957 amendment.

30 MR. VANIER: Yes.

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COMMISSIONER BROWN: Talking about the

investment powers, in the 1924 amendment and there was nothing about this investment up to the 50 per cent of capital in reserves. That came in in the 1927 amendment.



1 COMMISSIONER BROWN: Presumably at your
2 request?

3 MR. RAINVILLE: I don't know. Perhaps
4 this was inspired by the laws in the United States
5 applying to banks. Very often the laws and restrictions
6 like this in the United States apply mostly to small
7 banks.

8 COMMISSIONER BROWN: But this was not a
9 restriction.

10 MR. RAINVILLE: This was an additional power.

11 COMMISSIONER BROWN: This was an additional
12 power and it was not a restrictive power.

13 MR. RAINVILLE: And we could buy preferred
14 stock.

15 COMMISSIONER BROWN: You can buy that up to
16 15 per cent?

17 MR. RAINVILLE: Yes.

18 COMMISSIONER BROWN: But this wider power
19 is up to 60 per cent?

20 MR. RAINVILLE: We have not used it yet.

21 COMMISSIONER BROWN: That was my next question,
22 that in this 1957 amendment there were some items of
23 supplementary information which we haven't got on your
24 1961 balance sheet, which show the breakdown between
25 investments under section 59 and section 59(a). I
26 was going to ask you what investments you have, in
27 fact, made under 59(a)?

28 MR. RAINVILLE: We don't have anything.

29 COMMISSIONER BROWN: So you have not used
30 that section of the Act at all?



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MR. RAINVILLE: I don't know. Perhaps



1 MR. RAINVILLE: No.

2 COMMISSIONER BROWN: How about the Quebec?

3 MR. FOUCAULT: We have about \$1 million, and
4 we are entitled to \$1½ million.

5 COMMISSIONER BROWN: Is there any reason why
6 you have not used this wider power?

7 MR. RAINVILLE: We don't find the need, but
8 it would be useful if the bank formed a corporation
9 to transfer its buildings -- or, the buildings of the
10 bank to be owned by a separate corporation. In things
11 like that it may be useful. So far we haven't found
12 the need to take advantage of this section.

13 COMMISSIONER GIBSON: On the matter of your
14 assets structure -- if no one has any more questions
15 on mortgages -- I would like to ask a little about
16 personal unsecured loans. This is a pretty new
17 development with the savings, is it?

18 MR. VANIER: To a certain extent... We were
19 sorry to see our own clients borrowing money from other
20 institutions at a tremendous rate of interest and we
21 thought it was not in their interests, so we can supply
22 the same amount of money at a much better rate, and
23 our experience is very good. So, we like to say to
24 our depositors, when they are in need of money, that
25 they can borrow from us at a rate that is reasonably.
26 So, they now come to us, and in one single transaction
27 they easily save \$50 or \$75 interest.

28 COMMISSIONER GIBSON: This is a service you
29 are providing, or is it a new feature of your business
30 that you are actually pushing?

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MR. RAIVILLE: We don't find the need, but

you have not used this wider power?

COMMISSIONER BROWN: Is there any reason why

we are entitled to \$15 million.

MR. ROUNCIE: We have about \$1 million, and

COMMISSIONER BROWN: How about the question?



1 MR. VANIER: Well, we advertise it in a
2 general way because we like people to know what we
3 are in a position to do, and it develops generally
4 because people know their friends have borrowed at
5 an interesting rate and they come to us and ask the
6 same favour, and we do it. It is a service to the
7 public at a reasonable rate.

8 COMMISSIONER GIBSON: What rate would that
9 be?

10 MR. VANIER: 6 per cent plus the insurance
11 and a service charge.

12 COMMISSIONER GIBSON: And this would work
13 out a lot less than the credit union rates or finance
14 company rates?

15 MR. VANIER: I am not very familiar with the
16 rate of others, but certainly it is much better than
17 the rates actually charged by many financial institutions.

18 COMMISSIONER BROWN: We have heard a lot
19 of reference to this 6 per cent plus a service charge.

20 MR. VANIER: Those loans are insured. If a
21 man dies before having reimbursed a personal loan,
22 his estate pays. This is quite appreciated by the
23 public.

24 COMMISSIONER BROWN: Oh yes, but what I was
25 trying to get at is, what, in fact, is the rate when
26 you take in all the charges connected with the loan?

27 MR. VANIER: We have compared and we come
28 exactly in line with the commercial banks who charge
29 the smaller rate.

30 COMMISSIONER BROWN: But what is the rate?



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COMMISSIONER BROWN: But what is the rate?



1 Is it 12 per cent?

2 MR. VANIER: Oh, no.

3 MR. AUDET: We would say the insurance would
4 be half of one per cent, and the processing fees would
5 be probably $1\frac{1}{2}$ per cent. So, altogether, excluding
6 the insurance, but including the processing fees,
7 it may be about $7\frac{1}{2}$ per cent.

8 COMMISSIONER BROWN: Is this done on a
9 discounting basis or on a plus basis?

10 MR. RAINVILLE: A plus basis.

11 COMMISSIONER BROWN: Because there have been
12 so many words bandied about, I just wanted to know
13 about this.

14 MR. RAINVILLE: Yes.

15 COMMISSIONER GIBSON: You would like a little
16 more leeway now for this business by raising it from
17 5 to 10 per cent?

18 MR. RAINVILLE: Yes, because it includes
19 loans to religious corporations and the like.

20 COMMISSIONER GIBSON: It is the unsecured
21 loans?

22 MR. RAINVILLE: Yes.

23 COMMISSIONER GIBSON: This is the definition?

24 MR. RAINVILLE: We make quite a lot of them.

25 MR. VANIER: On personal notes of institutions
26 we lend big amounts of money without any security, and
27 this takes quite a part of the amount that is available
28 for that purpose. So, we would like to increase it.

29 COMMISSIONER GIBSON: You talk about having
30 leeway for 10 per cent there and leeway for 60 per cent

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COMMISSIONER GIBSON: You are asking for 10 per cent

leeway for 10 per cent there and leeway for 10 per cent



1 in mortgages. These are outside limits, I take it?
2 I take it you would expect to have lots of room if
3 you had that much leeway?

4 MR. RAINVILLE: Yes, I think we have enough
5 for the present, at least.

6 COMMISSIONER GIBSON: But you see your
7 institution developing on the asset side as a mortgage
8 institution in a large way and to a lesser degree in
9 making personal loans?

10 MR. RAINVILLE: That is true.

11 COMMISSIONER GIBSON: There is a strong trend?

12 MR. RAINVILLE: Yes. They used to say that
13 banks were never ready to help anyone, and that you
14 could go to a bank provided you did not need money;
15 and now it is the other way round.

16 COMMISSIONER GIBSON: Everybody is trying
17 to help everybody these days.

18 COMMISSIONER BROWN: On this question of
19 mortgages -- and I meant to ask this question earlier --
20 presently you are limited to the lesser of \$100,000
21 on any one loan or 60 per cent of the bank's valuation
22 of the property. You want to increase this to the
23 lesser of 5 per cent of the paid up capital or rest
24 account of the bank or two-thirds of the bank's
25 evaluation on existing property and 75 per cent of
26 the bank's evaluation on new property. Do you find
27 this \$100,000 restriction limits your activities?

28 MR. RAINVILLE: Yes, we have demands on
29 apartment houses, for example, and a large apartment
30 house may be worth \$300,000 or \$400,000.



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1 COMMISSIONER BROWN: Would you not regard
2 this as getting almost into the business loan field
3 rather than the individual loan?

4 MR. VANIER: They are investments in
5 real estate by people who are our clients.

6 COMMISSIONER BROWN: But they are really
7 business investments by those people.

8 MR. VANIER: The savings have to carry a
9 certain income. People who are not interested in
10 business proper are interested in real estate, and
11 perhaps there is a difference in this province from
12 that in other provinces. In this province people are
13 certainly more interested in investing in real estate
14 for income purposes. I don't know whether you have
15 noticed that, but if you scrutinize the problem you
16 will find there are many persons in other provinces
17 who invest in securities, in stocks and in this
18 province they invest in real estate. So, we have to
19 meet the requirements of people according to the local
20 mentality.

21 COMMISSIONER BROWN: I was looking at the
22 difference in attitude towards lending on a mortgage
23 for a family to buy their own home and lending on a
24 mortgage for somebody else to build apartments, to
25 build it as a business venture: What proportion of
26 your mortgage business would be to the individuals
27 who you are helping to buy their own homes and this
28 what could be called a near business operation on
29 apartment buildings?

30 MR. VANIER: Before any answer is given to you,



Grand, Ontario

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1 I would like to make just a remark: If you notice
2 in this province, and in this City of Montreal
3 especially, there are many more tenants than in other
4 cities of the same size. It means that a great number
5 of people are tenants instead of property owners.
6 So, since they are tenants they have to deal with a
7 person who has invested in the real estate business.
8 So, there are more people who have dwellings to rent
9 and more people who agree to rent those premises instead
10 of owing their property than in other cities -- Toronto,
11 for instance. There are many more individual houses
12 owned by their occupants in Toronto than in Montreal.
13 This means people invest for earning purposes in real
14 estate and they find tenants who agree to rent a place
15 instead of owning a place.

16 MR. RAINVILLE: Our policy would be to make
17 loans to the largest number of customers, and the
18 amount which is left available for mortgage loans
19 might be invested in large loans, but it is not in
20 the bank's interest to make large loans instead of small
21 ones because small loans bring more customers. That
22 is the way we see it as a policy.

23 MR. AUDET: I would say the present limitation
24 of \$100,000 for one single loan means that, if we have
25 the power to loan up to 60 per cent of our evaluation
26 of the property, we are limited to an apartment house
27 worth \$175,000. Now, that is not a very large apartment
28 house, so under the existing limitations we can say
29 that we have very few loans which would be made on
30 apartment houses. They cannot be on large apartment



I would like to make just a remark: If you notice

in this province, and in this City of Montreal

especially, there are many more tenants than in other

cities of the same size. It means that a great number

of people are tenants instead of property owners.

So, since they are tenants they have to deal with a

person who has invested in the real estate business.

So, there are more people who have dwellings to rent

and more people who agree to rent those houses instead

of owning their property than in other cities -- Toronto,

for instance. There are many more individual houses

owned by their occupants in Toronto than in Montreal.

This means people invest for earning purposes in real

estate and they find tenants who agree to rent a place

instead of owning a place

MR. RAINVILLE: Our policy would be to make

loans to the largest number of customers, and the

amount which is left available for mortgage loans

might be invested in large loans, but it is not in

the bank's interest to make large loans instead of small

ones because small loans bring more customers. That

is the way we see it as a policy

MR. AUBERT: I would say the present limitation

of \$100,000 for one single loan means that, if we have

the power to loan up to 50 per cent of our evaluation

of the property, we are limited to an apartment house

worth \$125,000. Now, that is not a very large amount of

money, so under the existing limitations we can buy

that we have very few loans which would be made on

apartment houses. They cannot be on large apartment



1 houses on account of the \$100,000 limitation -- very
2 few.

3 MR. VANIER: The land is becoming so
4 expensive in Montreal that people cannot afford to buy
5 unless they build quite a number of stories. So, we
6 have larger apartments than we used to have, and on
7 account of that it means that the general trend takes
8 away a certain number of clients who used to borrow
9 money from us who will not be doing so in the future
10 on account of the investors are investing in bigger
11 ventures.

12 COMMISSIONER BROWN: Have you any idea what
13 proportion of your loans are to home owners -- how
14 much have you got in mortgages?

15 MR. VANIER: Would it be one-tenth?

16 COMMISSIONER BROWN: You have got about
17 \$60 million in mortgages: What proportion of this would
18 be to the home owner?

19 MR. AUDET: You mean single dwellings?

20 MR. VANIER: About 50 per cent.

21 MR. FOUCAULT: Ours would be higher than that;
22 ours would be probably 85 per cent.

23 MR. RAINVILLE: But, the other half is not
24 invested in apartment houses.

25 MR. AUDET: No; the house may be a duplex
26 or a triplex -- is that what you mean?

27 MR. VANIER: I believe about half would be lent
28 to individual homes and the other half to multiple homes,
29 or to a building with multiple dwellings -- one, ten
30 or twelve -- but very often it is two or three.



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1 COMMISSIONER BROWN: It is quite opposite to
2 the implications contained in one of the parties that
3 appeared before us earlier this week.

4 MR. VANIER: Very often a man who has built
5 up a certain account of savings wants at a certain time
6 to invest, and he will invest in a property where he
7 will have his own home but wants a certain income from
8 one or two tenants.

9 COMMISSIONER BROWN: This is what I wanted
10 to find out. Thank you very much.

11 COMMISSIONER GIBSON: I was going to ask
12 one other question about mortgages: Why are there so
13 few N.H.A. mortgages in your portfolio. The Montreal
14 City and District is one of the two banks that has
15 any N.H.A. mortgages, I believe?

16 MR. VANIER: Yes.

17 COMMISSIONER GIBSON: Why is this -- why
18 are they mostly conventional rather than N.H.A.?

19 MR. VANIER: I would dare say, speaking for
20 myself, that we are not too keen about them because
21 the term is too long, the margin of safety is very
22 slim, and the procedure to take possession is very
23 annoying. We have to do all the dirty work and then
24 we are entitled to the insurance. We don't like to
25 claim against bad debtors and then hand over the property
26 to another in order to secure the cash. We have no
27 trouble at all with loans made to individuals who
28 build or who buy a property for their own personal use
29 or for investment, but it is much more intricate with
30 the other ones, and we believe the safety is very small



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1 in comparison to the others.

2 COMMISSIONER GIBSON: Yet you do make some
3 N.H.A. loans?

4 MR. VANIER: Oh, yes, but we haven't made
5 many these last years because we have a strong demand
6 for the others and we give preference to the others.

7 COMMISSIONER LEMAN: Does this depend mostly
8 on the way it is set up on the books? Has there been
9 a high rate of foreclosure on the N.H.A. ones.

10 MR. VANIER: No, but the handling of them is
11 not as easy as on the others.

12 COMMISSIONER LEMAN: And you foresee in the
13 future that may be troublesome?

14 MR. VANIER: Since the government has reduced
15 the margin of safety, we thought eventually we would
16 have to make claims against borrowers that would be
17 most unpleasant.

18 COMMISSIONER BROWN: Is this because the
19 terms are too long?

20 MR. VANIER: The margin of safety is very
21 slim.

22 COMMISSIONER BROWN: The percentage plus
23 the term?

24 MR. VANIER: Yes. Very often a man who buys
25 borrows the amount of cash he has to put down, and then
26 he borrows the balance, so where is the safety?

27 COMMISSIONER BROWN: You would rather lend
28 him the down-payment?

29 MR. VANIER: Well, our experience has shown
30 that whatever amount of down cash he has to put in is



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2 MR. RAINVILLE: And some builders tell them
3 they will have to pay \$200 or \$300 taxes, and it turns
4 out to be \$400 or \$500.

5 MR. VANIER: At the end of the contract,
6 when they have ceased paying, they may find they have
7 got nothing left in their hands.

8 COMMISSIONER GIBSON: I would like to ask a
9 few questions about your response to monetary policy
10 and credit conditions. I take it that the reserve
11 requirements that the law sets out for the Quebec
12 savings banks are, in your eyes, associated purely
13 and simply with the protection of the depositors and
14 not with monetary control; that is a correct statement,
15 is it?

16 MR. VANIER: I think so, yes.

17 COMMISSIONER GIBSON: Do you see any -- no,
18 I should not ask that, because you say you don't see
19 any purpose in thinking of such requirements in terms
20 of monetary control?

21 MR. VANIER: No, I don't think it would act
22 on us at all because we deposit our surpluses with
23 the commercial banks, and then whatever is agreed
24 between the Bank of Canada and the commercial banks
25 has a certain reaction on us through the commercial
26 banks.

27 COMMISSIONER GIBSON: What I was going to say
28 is, how are you affected by monetary conditions -- by
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2 delayed action, and not to the extent that it affects
3 commercial banks. When there is more money in
4 circulation we get part of it and so do the other
5 institutions, but if money is tight, well, deposits
6 may not increase as fast as they used to, or they
7 may decline a little.

8 COMMISSIONER GIBSON: Money is tight and
9 you feel pressure to compete for a harder to get
10 supply of business?

11 MR. RAINVILLE: Yes, but not to the extent
12 that it affects the other banks, because they are the
13 ones who would go and get and grant credit. If they
14 have the money they can double or triple their loans.
15 We cannot do that.

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2 should go into this. They have a fixed cash reserve
3 too which is basically rather similar to yours. They
4 have to keep that reserve.

5 MR. RAINVILLE: That is true.

6 COMMISSIONER GIBSON: What I am trying to
7 get at is, do you feel you do not get much direct
8 effect if the central bank tightens up or loosens
9 up? You do not feel it initially?

10 MR. RAINVILLE: No.

11 COMMISSIONER GIBSON: What happens when
12 this fans out; how does it affect you and how does
13 it work out when money gets easier, for instance
14 because the central bank has put more cash into the
15 banking system? How do you respond to that situation?

16 MR. RAINVILLE: Our deposits increase if
17 there is more money available, but slowly although
18 a little faster than it used to. We can say that
19 we have so much more for mortgages but we may not have
20 the demand for it, so we have to invest in bonds and
21 things like that.

22 COMMISSIONER GIBSON: So if there is more
23 money around you find it easier to get?

24 MR. RAINVILLE: Yes.

25 COMMISSIONER GIBSON: You look for other
26 opportunities to use it?

27 MR. RAINVILLE: That is right.

28 COMMISSIONER GIBSON: This is the process
29 that pushes interest rates on securities down?

30 MR. VANIER: It does not go directly to



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1 immediate credit as it does with commercial banks.

2 We have to invest rather than expand our credits.

3 COMMISSIONER GIBSON: That is the position
4 commercial banks are in. They can only extend credits
5 if there is a demand.

6 MR. VANIER: Of course.

7 COMMISSIONER GIBSON: In fact they invest
8 first because when they get extra money that is the
9 thing they can do right away.

10 MR. RAINVILLE: If a man gets a loan from
11 the commercial banks for \$1 million he does not take
12 that money out. He puts it somewhere in the bank,
13 or in another bank, so that puts additional money into
14 the banking system. He uses that money to pay off bills
15 and this results in more money available for more
16 credit in other banks.

17 COMMISSIONER GIBSON: Yes, providing the
18 central bank puts the extra cash into the system to
19 support additional loans.

20 MR. RAINVILLE: Yes, and it does not affect
21 us in the same way because we can lend it only once,
22 and that is all there is to it. Of course, we get
23 some of the money which is available to other banks,
24 some of which is deposited in our banks and other
25 institutions. Of course, that is why our deposits
26 are affected and go up faster than they used to, for
27 a while.

28 COMMISSIONER GIBSON: Let us now look at the
29 reverse procedure. Money is getting tight and the banks'
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1 in check; what happens to you in this situation?

2 MR. VANIER: It affects our liquid position
3 first of all. We have quite a surplus and it would
4 affect that rather than the credit.

5 COMMISSIONER GIBSON: In these circumstances
6 would you go out and aggressively try to find a more
7 stable money supply because money is harder to get?

8 MR. RAINVILLE: Yes. I think a stable money
9 supply would be a good thing. Of course, it is hard
10 to say what is necessary or how much money is necessary.

11 COMMISSIONER GIBSON: What I am trying to
12 get is, if there is not so much money around would you
13 make an extra effort to get it by perhaps raising your
14 interest rates or putting on a savings campaign, or
15 something of this kind?

16 MR. VANIER: I do not think that the rate on
17 savings has much to do with the quantity of savings.
18 That is the experience not only in Canada but in the
19 United States. A war develops between institutions
20 as to rates and in the United States they have come to the
21 conclusion that it has not varied much at all. Therefore
22 we do not think we can encourage savings by increasing
23 the rate. We do not think it would have any effect.

24 COMMISSIONER GIBSON: In this case you are
25 talking about in the United States was not the essential
26 result the taking of a lot of business out of one group
27 of institutions and put into another, and then the others
28 responded and got quite a lot of it back. However, if
29 one group pays a higher set of interest rates than
30 another, do they not tend to get more business?

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1 MR. RAINVILLE: Yes, I would say so.

2 MR. VANIER: To a certain extent, yes.

3 COMMISSIONER GIBSON: If they all raise
4 their rates there is not much difference.

5 MR. VANIER: That is usually what happens.
6 If one tries to raise the rates the others will do so
7 also.

8 COMMISSIONER GIBSON: You do not think it
9 would help to encourage savings?

10 MR. VANIER: I do not think so. It might
11 to a certain extent, but to a very limited extent in
12 my mind.

13 COMMISSIONER GIBSON: Well, your general
14 policy has not been particularly aggressive in the
15 deposit area, I take it?

16 MR. VANIER: We try to be aggressive in
17 services and to please the clientele.

18 COMMISSIONER GIBSON: Let us say in terms
19 of interest rates you are not very aggressive?

20 MR. VANIER: No, we have not tried that and
21 we do not have it in mind. I speak for myself, of
22 course.

23 COMMISSIONER BROWN: Could we ask for a further
24 development of this situation? Money gets easier so
25 your deposits go up and you cannot use that right away,
26 so you invest?

27 MR. VANIER: That is right.

28 COMMISSIONER BROWN: Then money becomes tight
29 again and by this time the mortgage demands start to
30 come along, but because interests have gone down and



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1 because money has tightened up the investments you
2 have made have gone down in price. These temporary
3 investments you have made, or whatever you did with
4 the money, pay less. Does the result of a book loss
5 inhibit you from extending your mortgages or do you
6 regard yourself as locked in?

7 MR. VANIER: If money becomes tighter we
8 can take care of it. Of course, there are certain
9 withdrawals, but our cash position will take care of
10 it and the daily inflow of money will take care of
11 the balance. We stop making as many loans as we
12 have been making and this has a certain effect, but
13 we will not find ourselves in trouble because the
14 inflow will take care of the decrease in deposits.

15 COMMISSIONER GIBSON: But in the meantime
16 you have increased your investments?

17 MR. VANIER: Yes, we have increased our
18 investments in the meantime.

19 COMMISSIONER BROWN: So your asset structure
20 becomes locked in with a larger proportion of investments?

21 MR. RAINVILLE: That has not happened yet.

22 COMMISSIONER BROWN: How do you re-adjust
23 to this situation?

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22 COMMISSIONER BROWN: How do you re-adjust
23 to this situation?



1 MR. VANIER: It works out very smoothly.

2 COMMISSIONER BROWN: Do you sell some
3 investments?

4 MR. VANIER: The inflow of money would take
5 care of all the withdrawals because the inflow is
6 very considerable.

7 COMMISSIONER BROWN: You see, when money
8 became easier and you received more deposits you
9 said you increased your investments because mortgages
10 were not immediately available.

11 MR. VANIER: That is true.

12 COMMISSIONER BROWN: This means of your
13 whole asset picture you have a higher proportion of
14 investment relative to mortgages than you had before?

15 MR. VANIER: That is right.

16 COMMISSIONER BROWN: My question is, when
17 money becomes tight and before you have had an
18 opportunity to readjust this to increase your
19 mortgages, does the fact that your investments
20 have gone down in price inhibit you from handling
21 the mortgages?

22 MR. RAINVILLE: We have not found that
23 situation yet because we are still below the limit
24 allowed to us for mortgages, which is 40 per cent.
25 We have never met that situation in our bank in
26 any way.

27 COMMISSIONER BROWN: I am afraid you
28 do not quite understand what I mean. You have
29 said that when money becomes easier because the
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3 COMMISSIONER BROWN: This presumably is
4 the purpose of selling investments and putting that
5 money into mortgages as soon as the mortgage demand
6 increases.

7 MR. VANIER: Usually we do not sell.
8 We limit our loans to the amount of cash available.
9 We do not sell our investments. We will buy
10 securities; short term securities just to take care
11 of the gap, you see.

12 COMMISSIONER BROWN: In other words, when
13 you get this extra cash your liquid securities
14 represent that portion of your investment portfolio
15 that you increased?

16 MR. VANIER: Yes.

17 COMMISSIONER BROWN: But just the short
18 term?

19 MR. VANIER: Exactly. If you look at
20 the figures we gave you will see that our position
21 is very liquid and we also hold a quantity of bonds
22 that are short term bonds, so by the lapse of time
23 we recoup what we have lost as a result of the
24 tight money. Besides that, all the mortgages
25 are payable by month or quarterly investment. This
26 means hundreds of thousands of dollars every month
27 received.

28 COMMISSIONER BROWN: Yes.

29 MR. VANIER: So this keeps us in a very
30

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MR. VANIER: That is right.

COMMISSIONER BROWN: This presumably is

the purpose of selling investments and putting that money into mortgages as soon as the mortgage demand

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1 good position. We have not found ourselves in
2 trouble at all in any case on account of that
3 situation. Our liquid position and inflow of
4 money is very satisfactory.

5 COMMISSIONER BROWN: I am not implying
6 you are in trouble at any time. I am merely trying
7 to find out what you do. I gather that when money
8 becomes easier you just increase your liquidity
9 portion by short term investments?

10 MR. RAINVILLE: Yes, very widely.

11 COMMISSIONER BROWN: And you balance
12 back again as the opportunity for mortgage investment
13 appears?

14 MR. RAINVILLE: That is right.

15 COMMISSIONER BROWN: It is a temporary
16 move only?

17 MR. VANIER: That is the right answer.

18 MR. RAINVILLE: There is no wide movement
19 in deposits. When money is tight deposits go down
20 a little, but not much.

21 MR. VANIER: This shows the difference
22 between commercial banks and savings banks. We
23 handle the cash balances of our clients and not
24 the hot money that might be in the hands of big
25 depositors.

26 COMMISSIONER BROWN: Could we have a
27 definition of this word "hot"?

28 MR. VANIER: Changes are very slow because,
29 you see, as I told you we have 300,000 clients
30 all with chequing accounts, so this means a small



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1 balance for every one, even for those persons that
2 deal with the commercial banks. . . We even might have
3 as depositors a few managers of commercial banks.

4 COMMISSIONER BROWN: They are planning
5 to save money?

6 MR. VANIER: They are looking for safe-
7 keepers of that money.

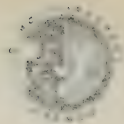
8 COMMISSIONER LEMAN: Perhaps you should
9 give a list of those to Mr. Gibson.

10 MR. VANIER: Looking at this seriously,
11 these people like to have their private accounts
12 with a separate institution from those from which
13 they secure their credit for business. . . This is
14 good psychology. These individuals want to separate
15 their personal and family affairs from their business
16 affairs, so they keep their business balances with
17 the commercial banks and their family and private
18 balances with the Montreal City District Bank. . . We
19 find this a nice concept of living.

20 COMMISSIONER BROWN: A question was asked
21 about competition for savings. Why do you just pay
22 the same on your savings accounts as the commercial
23 banks pay on their savings accounts?

24 MR. VANIER: We might ask why commercial
25 banks pay the same rate as we pay, because it is
26 a fact, you know, that a few years ago they did
27 not care about savings accounts. However, they
28 have discovered that they are a nice thing to have.

29 COMMISSIONER GIBSON: That was quite a
30 few years ago.



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1 MR. VANIER: It was quite a number of
2 years ago, yes, because I know they are very
3 clever people and they did not take long to find
4 this out.

5 COMMISSIONER BROWN: The point is this,
6 these savings banks exist only in the province
7 of Quebec.

8 MR. VANIER: Yes, unfortunately for the
9 rest of Canada.

10 COMMISSIONER BROWN: In the rest of
11 Canada the chartered banks have savings accounts.
12 Whether the rate be at 2 3/4 per cent or something
13 else, you are competing with the banks of the rest
14 of Canada. What would happen if you went up to
15 3 per cent?

16 MR. VANIER: I suppose they would follow
17 suit.

18 COMMISSIONER BROWN: You think that would
19 happen over the whole of Canada?

20 MR. VANIER: I suppose so eventually.

21 COMMISSIONER BROWN: As a savings depositor
22 in the rest of Canada I would say that it might
23 pay us to have you put your rates up.

24 MR. VANIER: Perhaps so, but I believe
25 we should discuss conditions with them before we
26 do that. If we changed in Quebec I suppose
27 the commercial banks would change in this province.
28 If they changed in this province why would they not
29 change in other provinces? I believe that everybody
30 would follow suit. In the banking business, of



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1 course, everybody needs a spread between the cost
2 of the money and the return on the money they invest.
3 It would eventually probably lead to an increase in
4 the rates on credit. I do not know that, but it
5 might.

6 COMMISSIONER BROWN: I should like to ask
7 you about one other subject: you mentioned
8 competition from the organizations that do not
9 pay any income tax. I think you would probably
10 agree that if they were made subject to income
11 tax they would probably adjust certain of their
12 operations, so it would only be their surpluses
13 that would be involved and subject to income tax,
14 and because they are more scattered the surpluses
15 would only be taxable in many instances at the
16 lower rate of 20 per cent. Now, would you
17 care to comment as to how this is offset for your
18 banks by the fact that you do have a reserve which
19 is accumulated and which is not subject to income
20 tax?

21 MR. VANIER: Oh, no, we pay on everything.
22 We pay taxes on our profits. Even if we keep them
23 as reserve we pay taxes on that reserve, so we have
24 already paid tax on the reserve that we find
25 necessary to cope with the withdrawal of our
26 depositors.

27 COMMISSIONER BROWN: Do you not also
28 have a reserve set up in your Act which is not
29 taxable?

30 MR. VANIER: Only the ones allowed by law.



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1 COMMISSIONER BROWN: That is my point,
2 you have this which these other people do not have;
3 they have the open reserve on which tax has not
4 been paid.

5 MR. VANIER: This is becoming less and
6 less. You know that. It has decreased considerably
7 in the last few years.

8 COMMISSIONER BROWN: I am asking for
9 your comment on the result of your having a
10 reserve which you have accumulated and which has
11 not been subject to taxes.

12 MR. RAINVILLE: These depend on the amount
13 of investments we have in each category. That is
14 the way that reserve is set up. It might increase
15 if we had more investments in one type than in
16 another. That is the way a reserve is set up.
17 If we have a 5 per cent reserve in a particular
18 type of investment it is limited to 5 per cent
19 the next year. We do not have the 5 per cent
20 balance that we had at the end of that year.
21 We may decrease the reserve or increase it
22 according to what we had at that time.

23 COMMISSIONER BROWN: But the fact does
24 remain that there is a reserve there which has
25 accumulated and which has not been taxed?

26 MR. VANIER: No, not accumulated; it
27 is decreasing every year. There is only a certain
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2 of the Department of Finance. They are collecting
3 more and more on this because they allow only
4 reserves that are non-taxable in smaller and smaller
5 amounts.

6 COMMISSIONER BROWN: Let us leave out the
7 word "accumulated".

8 MR. VANIER: It is not accumulative.

9 COMMISSIONER BROWN: I said "accumulated"
10 reserves, not "accumulative". Let us leave out
11 that word "accumulated".

12 MR. VANIER: It is not accumulated, it
13 is a yearly allowance.

14 COMMISSIONER BROWN: Let us leave that
15 word out and say you have a reserve which has not
16 been taxed.

17 MR. RAINVILLE: Yes.

18 MR. VANIER: Yes, sir.

19 COMMISSIONER BROWN: You will agree with
20 that.

21 MR. VANIER: Yes, but according to the rules
22 which have become tighter and tighter, the
23 amount we are allowed is rather smaller as time
24 elapses.

25 COMMISSIONER BROWN: My point is that
26 you do have a reserve which does not show in your
27 balance sheet and which has not been taxed.

28 MR. VANIER: That is true.

29 COMMISSIONER BROWN: To what extent would
30 you say that this offsets the other reserves which



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1 these other organizations have which also have not
2 been taxed?

3 MR. VANIER: I would say that it is not
4 comparable at all and is much smaller than those
5 that are tax exempt in other institutions as a
6 result of the way it must be figured according to
7 the rules of the Minister of Finance and the
8 Inspector of Banks. They have changed the rules
9 from year to year and have allowed a smaller pro-
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Journal, Ontario
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are fairly low.



1 COMMISSIONER BROWN: In addition?

2 MR. VANIER: Yes, as a matter of security.

3 We have paid taxes already -- as you know, there
4 are certain past earnings that are taxable on a
5 certain basis if they exceed what is allowed on
6 a non-taxable reserve, so we have paid or we are
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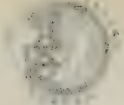
11 Of course, I took the figures of the
12 others but as far as I can note it is not a true
13 comparison.

14 COMMISSIONER BROWN: But your assets
15 have been going up every year?

16 MR. VANIER: Yes. Well, it depends.
17 When the Attorney General -- when the government
18 stated that such types of investments were not
19 allowed to go to any reserve any more than any
20 surplus had to be turned in to the regular profits
21 of the year and taxed on the rate that was in
22 operation for that year of taxation.

23 COMMISSIONER GIBSON: I wonder, Mr.
24 Vanier, when you refer to this tax disadvantage --
25 have you any thoughts on how to correct the
26 situation that is concerning you?

27 MR. VANIER: Well, my views on that
28 are these; as I told you, I have no ill feeling
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30 all very useful, but if you take a reasonable



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1 view of the situation you must admit that institutions
2 who render services to the public in communities
3 of a certain size are entitled to privileges and
4 I believe that it is in the common interest for
5 these -- it is in the interest of the common welfare
6 that they should be allowed to function under
7 privileged conditions, but what seems to be unfair
8 is that these institutions who could provide services
9 under a privileged system to smaller communities
10 come to the bigger centres that are well provided
11 with institutions paying taxes and they compete
12 with them in that field, which seems less reasonable
13 to my mind, so I think that they should be allowed
14 to do it, but when they do it in communities that
15 are fully provided for institutions paying taxes,
16 they should pay taxes like everybody but they
17 should be entitled to the privileges when they do
18 act in communities where they render services that
19 are not fully supplied by other institutions. This
20 is my view on it and I believe it is reasonable.

21 COMMISSIONER GIBSON: As a practical
22 matter, that would be a very hard line to draw.
23 We say in communities that have a population not
24 exceeding so much
25 that they should be entitled to act without paying
26 taxes. I think that would be fair, but if they
27 think that they could do business in big communities
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1 institutions -- privileged institutions and institutions
2 losing their privilege under certain circumstances.

3 COMMISSIONER BROWN: If they were competing
4 with somebody who was already paying taxes?

5 MR. VANIER: Yes. I mean in big
6 communities.

7 COMMISSIONER GIBSON: If they are
8 competing with taxpaying institutions in the same
9 locality you suggest that another criterion is
10 whether it is a large city and I think you
11 also imply that the size of the competing institution
12 has something to do with it, too.

13 MR. VANIER: Yes, perhaps so. I do not
14 want to be unfair, but you see if you look at the
15 thing in a very unaffected way, some institutions
16 will say, "Well, we are institutions of another
17 type because we act between our members." Well,
18 we act between our own friends when we act with
19 our depositors; they are our friends and our
20 members just as well. The only difference is
21 that you become a member if you buy a licence
22 at \$5 a piece; you become a member then and
23 you are entitled to do business with a bank that
24 does not pay taxes.

25 When your business is over you say,
26 "Well, I want to renew my licence and I will take
27 by my \$5 and I am becoming an ordinary man on
28 the street who has to pay taxes." I do not think
29 that that way of looking at the thing is very
30 logical.



COMMISSIONER BROWN. If they were content

with somebody who was already paying taxes?

MR. VANIER: Yes. I mean in this

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- 1949 -

Toronto, Ontario

1 I suppose if we could secure from our
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3 without dispensing with paying taxes and provided
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5 sell to them for a limited period of time for \$5,
6 \$10 or \$25, then we would do business with them
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11 a member. Now, this does not appeal to me as
12 being logical, but I do not want to deny and
13 I do not want to be mean.

14 I believe that in smaller communities
15 we have wonderful institutions and they have
16 developed a good spirit and they need help at
17 these smaller communities by giving a service
18 that was needed. I believe that they should
19 be encouraged to do that, and even if they should
20 be granted these privileges it is justified --
21 there are many institutions that have more
22 depositors in the larger banks over the country.
23 Well, they are in a position to respect the laws
24 of the country like anybody else. There is no
25 special need for an institution that would not
26 pay taxes. That is the way that I look at it.

27 COMMISSIONER BROWN: It is very difficult
28 in practice, though, to draw a line along the
29 suggestions that you make. Who is going to
30 decide that this community deserves a tax-free



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1 institution?

2 MR. VANIER: It is the size of the community.
3 Everybody knows that as soon as a community has
4 become a community of a certain importance that
5 there are two or three or four banks that would
6 immediately compete there.

7 COMMISSIONER BROWN: Then, would these
8 institutions lose their tax-free privileges?

9 MR. VANIER: Well, they might not if
10 they have vested rights. If they are organized
11 and are in these communities before the others
12 their rights should be respected, but if they
13 do it the other way and come into certain places
14 where they have never ventured, come into localities
15 and be provided with institutions and say, "We
16 are different, we are going to compete with you
17 without paying taxes", it seems to me that it
18 creates tension instead of helping the community.
19 I believe in themselves they are wonderful things.

20 COMMISSIONER BROWN: As long as they do
21 not compete?

22 MR. VANIER: As long as they keep in
23 the spirit of the institution, which is ---

24 COMMISSIONER BROWN: You have made some
25 comments in your brief about branch banking
26 competition.

27 MR. VANIER: Well, that is fair because
28 I believe that we have wonderful relations with
29 the other banks, with the commercial banks and
30 I believe our dealings are very pleasant. We



MR. VANIER: It is the size of the community

Everybody knows that as soon as a community has become a community of a certain importance that there are two or three or four banks that would immediately compete there

COMMISSIONER BROWN: Then, would these

MR. VANIER: Well, they might not if

they have vested rights. If they are organized and are in these communities before the others their rights should be respected, but if they do it the other way and come into certain places where they have never ventured, come into localities and be provided with institutions and say, "We are different, we are going to compete with you without paying taxes", it seems to me that it creates tension instead of helping the community. I believe in themselves they are wonderful things.

COMMISSIONER BROWN: As long as they do

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MR. VANIER: As long as they keep in

COMMISSIONER BROWN: You have made some

comments in your brief about branch banking

MR. VANIER: Well, that is fair because

I believe our dealings are very pleasant. We the other banks, with the commercial banks and



1 deal with people who pay taxes as we do and they take
2 our competition because we pay taxes.

3 COMMISSIONER BROWN: But there is an
4 implication there that you think some of the branch
5 bank competition is wasteful. I think this is
6 in paragraph 193.

7 MR. VANIER: That is not the banks'
8 fault; it may be our fault, or the fault of the
9 other banks, if you opened a branch where we
10 could not.

11 COMMISSIONER BROWN: You say:
12 "Excessive branching by commercial banks
13 raises serious doubt as to the possibility
14 and justification of such intense
15 competition"

16 MR. VANIER: Now that is a general
17 remark; it is up to the interested parties to decide
18 whether they are going to run the risk of opening
19 a branch where they should not; if they do it, they
20 do it at their own risk.

21 I believe in some instances there are
22 places where there are many banks, indeed, and I
23 believe in competition, I believe that it is a
24 good thing, but it corrects itself by the fact
25 that the one that does not succeed because they
26 have invaded fields that they should not have,
27 that they will have reaped the benefits or the
28 bad consequences of their initiative.

29 COMMISSIONER BROWN: There is no indication
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COMMISSIONER BROWN: But there is an
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MR. VANIER: That is not the point.
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have invaded fields that they should not have,
that they will have respected the benefits of the
bad consequences of their initiative.

COMMISSIONER BROWN: There is no indication



1 this is against the public interest.

2 MR. VANIER: No, I do not think it is.
3 I think it is against the interests of the institutions
4 concerned, but it might be a factor.

5 COMMISSIONER BROWN: I was wondering why
6 you were drawing it to our attention.

7 MR. VANIER: Well, it mightnot have been
8 necessary; I think you could have discovered that
9 yourself! Like many of the other things we say,
10 I believe you are well informed and when we say
11 something we do it ---

12 COMMISSIONER BROWN: On this question of
13 competition again, do you have the same banking
14 hours as the ordinary commercial banks?

15 MR. VANIER: No.

16 COMMISSIONER BROWN: What banking hours
17 do you operate.

18 MR. VANIER: We are open in the evening
19 because we want to serve the family and we open
20 in the evening because we want to keep in contact
21 with the family, and they work during the day and
22 they cannot do business during the day and come
23 in the evening, and we do that in order to accommodate
24 them.

25 COMMISSIONER BROWN: All of your branches?

26 MR. VANIER: All of them.

27 COMMISSIONER BROWN: Has this been going
28 on for a long time?

29 MR. VANIER: Since our inception in
30 business.



MR. VANIER: No, I do not think so.

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1 COMMISSIONER BROWN: What are your banking
2 hours, just for the record?

3 MR. VANIER: Ten to three in the mornings,
4 seven to eight in the evenings, five days a week,
5 Monday through Friday.

6 MR. FOUCAULT: Our bank follows the
7 regular banking hours.

8 MR. VANIER: Montreal is becoming a
9 big city and people who have their work downtown
10 have to cover two or three or four miles before
11 reaching their homes, so it is not easy to transact
12 all their business in the commercial centres.

13 COMMISSIONER BROWN: Do you find you do
14 a lot of business in this seven to eight evening
15 hour?

16 MR. VANIER: Oh yes; we find that it is
17 highly appreciated, and not only that, but people
18 come and pay their bills at our offices instead
19 of sending them in by post or going to the various
20 offices to pay their bills. We accept them
21 and we accommodate them by receiving them at our
22 offices.

23 COMMISSIONER BROWN: This has been going
24 on since you started in operation?

25 MR. VANIER: Yes, it has always been
26 our policy and it is highly appreciated by the
27 public.

28 COMMISSIONER BROWN: This is at all your
29 branches?

30 MR. RAINVILLE: Except the main office.



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big city and people who have their work downtown have to cover two or three or four miles before reaching their homes, so it is not easy to transport all their business in the commercial centers. COMMISSIONER BROWN: Do you find you do a lot of business in this seven to eight evening

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COMMISSIONER BROWN: This is at our

MR. RAINVILLE: Except the police office



1 MR. VANIER: Yes, because it is located
2 in a business centre and there would be no use for
3 that.

4 COMMISSIONER LEMAN: Considering that
5 you feel that some of the near banks have invaded
6 the banking field -- this is in some of your
7 last recommendations -- you would like to become a
8 near bank, too, in part would you not?

9 MR. VANIER: We are very much a bank
10 as we are.

11 COMMISSIONER LEMAN: I see. You would
12 like to become a near bank in addition to that?

13 MR. VANIER: I do not grasp your remark.

14 COMMISSIONER LEMAN: I got the impression
15 that you felt that these near banks have gone into
16 the banking field, and in retaliation you say that
17 you would like to go into the near bank field by
18 asking for the privilege of doing some trust business,
19 the operation of a mutual fund, and what is the
20 third one?

21 COMMISSIONER BROWN: Real estate fund
22 and life insurance.

23 COMMISSIONER LEMAN: And even some
24 life insurance. Have you planned the things
25 in your mind as of now? Do you know what kind
26 of a mutual fund you would want to operate, would
27 it be for investment in common stocks?

28 MR. VANIER: No, we have not got the
29 power so we do not give much time to that. Of course,
30 the questions that were set in your questionnaire



MR. VANIER: Yes, because it is located in a business centre and there would be no way for

you feel that some of the near banks have invested the banking field -- this is in some of your last recommendations -- you would like to become a near bank, too, in part would you not?

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COMMISSIONER LEWIS: I see. You would like to become a near bank in addition to that?

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COMMISSIONER LEWIS: I got the impression that you felt that these near banks have gone into the banking field, and in retaliation you say that you would like to go into the near bank field of asking for the privilege of doing some sort of business, the operation of a mutual fund, and what is the third one?

COMMISSIONER LEWIS: Real estate fund and life insurance.

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MR. VANIER: No, we have not got the power so we do not give much time to that. Of course the questions that were set in your questionaire



1 called for remarks of that sort, so we thought that
2 we would mention the things we could handle if the
3 powers were enlarged, but I believe the best way
4 would be to try to deal with every section of the
5 business and make it clear what institutions of
6 a certain category should be limited to a certain
7 number of activities, but since there is general
8 confusion it seems just as well to add to it!

9 COMMISSIONER BROWN: You are not suggesting
10 these are really banking functions, that they
11 really fall within the definition of banking
12 functions?

13 MR. VANIER: It shows only that it would
14 add to the confusion -- I believe this personally --
15 but if the country wants it that way, well, let us
16 do it like everybody, but I do not think it is a
17 good policy, generally speaking.

18 COMMISSIONER BROWN: We can wash this
19 all out, then?

20 MR. VANIER: Not necessarily, but if you
21 do that with the others, you might.

22 COMMISSIONER BROWN: As reciprocation.
23 Now, one small point about your bank. You are
24 a member of a clearing house here?

25 MR. VANIER: Yes, we are a member of
26 the clearing house for over 50 years; we are a
27 full member and pay our share.

28 COMMISSIONER BROWN: And this works
29 out very satisfactorily?
30

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COMMISSIONER BROWN: And this works

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we would mention the thing we could handle if the



1 MR. VANIER: Yes, very satisfactorily.
2 We have been regular members now for over 50 years
3 or so, and it costs what it costs the others.

4 MR. RAINVILLE: But they could cancel
5 our membership if they wanted to.

6 COMMISSIONER BROWN: Could you cancel
7 theirs?

8 MR. RAINVILLE: It is the organization.

9 COMMISSIONER BROWN: But you are a
10 full member.

11 MR. RAINVILLE: We are full members,
12 but there is that restriction in the regulations.

13 COMMISSIONER BROWN: That they could
14 cancel yours?

15 MR. RAINVILLE: Yes, that is right.

16 COMMISSIONER BROWN: So, you are not quite
17 a full member.

18 MR. RAINVILLE: They call us full members
19 with full privileges, but there is doubt.

20 MR. VANIER: But in paying the bills we
21 become full members, anyway!

22 COMMISSIONER LEMAN: What sort of bad
23 things would you do that would get you out?

24 MR. VANIER: I do not know; perhaps
25 if we drew our deposits out from the other banks!

26 COMMISSIONER BROWN: You charge the same
27 service charges as the commercial banks on your
28 savings accounts, cheques and so forth?

29 MR. VANIER: Yes, I believe it is equivalent.
30 I am not well posted on the way the others are

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1 handled, but I believe we are ---

2 MR. RAINVILLE: We are about the same.

3 COMMISSIONER BROWN: Are they the same?

4 MR. RAINVILLE: The same for almost everything;
5 there are very few exceptions, so we might say
6 the same.

7 MR. VANIER: The better answer, I think
8 is the same.

9 COMMISSIONER BROWN: Did you follow
10 them or did they follow you?

11 MR. RAINVILLE: We followed them.

12 COMMISSIONER BROWN: I wondered because
13 you imply that was on saving accounts.

14 MR. VANIER: We have restrictions on
15 savings accounts and the commercial banks have
16 no particular restrictions as to their savings
17 accounts.

18 COMMISSIONER BROWN: What are these
19 restrictions?

20 MR. VANIER: Well, we are limited to a
21 certain sort of investment, but apparently, I
22 believe, the commercial banks use any commercial
23 funds or savings funds for commercial purposes;
24 we cannot do.

25 COMMISSIONER BROWN: They cannot go into
26 mortgages the same as you?

27 MR. VANIER: No, but we are allowed to
28 do mortgages because it seems to be appropriate
29 to do those, and they do commercial credit with
30 commercial plants, but they add to that whatever



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27 commercial banks, but they are not allowed to do



1 they gather in savings. This is no complaint;
2 it is just a remark.

3 COMMISSIONER BROWN: Would you consider
4 it quite fair if it was suggested that the
5 commercial banks could invest in mortgages up to
6 a proportion of their savings accounts?

7 MR. VANIER: From a general point of
8 view, I believe that the main object of the chartered
9 banks or the commercial banks, I believe that their
10 main purpose is to grant short term credit to trade
11 and industry and I believe this is a very important
12 function and I believe that is their own.

13 COMMISSIONER BROWN: In the rest of Canada
14 there are no savings banks?

15 MR. VANIER: We do not look for that
16 because I believe they are better equipped to
17 look after that, and they do it well, but I reiterate
18 that the mortgages are a type of credit that has
19 nothing to do with trade; it has to do with
20 savings and with investment -- and perhaps this is
21 the wrong term -- with venture.

22 If you borrow money from a commercial
23 bank in order to produce goods, you reimburse
24 with the profits from the goods you have manufactured,
25 but if you make a loan in order to buy a property,
26 well, you will not reap from that investment enough
27 money to refund the money -- it will take at least
28 10 or 15 years or perhaps 20 years before you can
29 draw from the venture sufficient money to reimburse
30 the funds, so it is a credit, but it is another type

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the funds, so that it is a long time before



1 of credit and we believe that we are well equipped
2 to do this because we have savings always available
3 for withdrawals, so I believe that the mortgage
4 business is something which I believe is appropriate
5 to a savings bank and I believe short term credit
6 is really credit appropriate to commercial banks.
7 They do very well with their business and I believe
8 we do ourselves very well, too.

9 COMMISSIONER BROWN: In the rest of Canada
10 there are no savings banks?

11 MR. VANIER: I believe they should have,
12 and we will help them to build some if they want
13 any. I do not say that in a spirit of hostility
14 to commercial banks, but just because we feel they
15 should meet certain requirements.

16 COMMISSIONER BROWN: The commercial banks
17 have roughly \$80 million in savings accounts in
18 Canada.

19 MR. VANIER: Yes.

20 COMMISSIONER BROWN: And do you think
21 that any portion of this should be directed to go
22 into mortgages, the same as you think it is good
23 for savings?

24 MR. VANIER: I believe that if they want
25 to use it for commercial purposes that they should
26 do it. It would be just as well, because they
27 are strong institutions and I believe that they
28 should give security to the public. I just mention
29 that we have submitted certain restrictions and
30 that we are not without some merit in running our



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Nethercut & Young

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Toronto, Ontario

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1 COMMISSIONER BROWN: Do you think it would
2 be all right for them to go into mortgages -- for
3 some of these savings accounts?

4 MR. VANIER: Would it be to go into the
5 mortgage business or be forbidden to use the deposits
6 for commercial business? If they are allowed to
7 do mortgage business they may be forbidden from using
8 the savings accounts for commercial purposes, but I
9 don't think they should do both things. If they
10 use the savings for commercial business, because it
11 is their main business, then it may be justified, but
12 then they should not do exactly on top of that the
13 kind of business we do. That is the way we look at
14 it.

15 COMMISSIONER GIBSON: As a matter of fact,
16 the chartered banks are in the mortgage business in
17 so far as N.H.A. mortgages are concerned in a sizeable
18 way now.

19 MR. VANIER: Yes, but I believe it was done
20 in a period of emergency, and they were asked to do
21 it as a service to the community. I do not think they
22 like it very much.

23 COMMISSIONER GIBSON: Well, it has happened,
24 sir.

25 COMMISSIONER BROWN: They were told to like
26 it.

27 MR. VANIER: But has it happened at the
28 request of the authorities in order to help the people
29 in a period of emergency? I believe in ordinary
30 circumstances other institutions or near banking



1 institutions do it well too. I believe other
2 institutions could take care of that form of credit.
3 I believe if the commercial institution were to limit
4 itself to short-term credit it would be better, because
5 they do it well and it is badly needed by our country.
6 Especially since we have to compete with the common
7 market, I believe it is more useful than the other.

8 COMMISSIONER GIBSON: I am not quite happy
9 with the answer you gave about these recommendations
10 about the mutual fund and a real estate investment fund,
11 and so on. It does seem to me that your record
12 shows you have quite radically changed your business
13 in the last decade. Ten years ago you were not in
14 the mortgage business to any really large degree,
15 and now you are in it and expanding in this business,
16 and you say this is good.

17 MR. VANIER: Yes.

18 COMMISSIONER GIBSON: I have no doubt it is,
19 but are not the suggestions you make here the trend
20 of things? Are they not also financial services?

21 MR. VANIER: The American savings banks do
22 it.

23 COMMISSIONER GIBSON: Yes.

24 MR. VANIER: So, if you wanted suggestions,
25 we have made them for what they are worth. We are not
26 so keen about it, provided we would receive fair
27 competition from everybody in our own field.

28 COMMISSIONER GIBSON: But do you not think
29 this is logical?

30 MR. VANIER: Well, if it is logical in the

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so much about it, provided we would receive fair

competition from everybody in our own field.



1 general confusion, yes.

2 COMMISSIONER GIBSON: Do you think it is
3 logical you should have gone into the mortgage business?

4 MR. VANIER: Oh yes, most logical because
5 this is exactly the kind of credit savers need. I
6 believe you will agree with me on that point.

7 COMMISSIONER GIBSON: I do not disagree with
8 you, but I don't know why you say it is not logical
9 you should do these sort of things?

10 MR. VANIER: I did not say it is not logical.
11 I say it is particularly logical under present
12 circumstances. It may be less under other circumstances.
13 That is all I mean. But I believe there are things
14 we could easily handle with benefit for our clientele,
15 since they are offered by others who are subject to
16 no limitations at all. So, why would not we do it?
17 We are in a position to do it just as well and just as
18 profitably for ourselves and the clientele.

19 MR. RAINVILLE: And for the government too
20 because we pay taxes.

21 MR. VANIER: We are quite an associate of
22 the government.

23 COMMISSIONER BROWN: Would you be in favour
24 of the mutual fund people accepting deposits?

25 MR. VANIER: Well, if they are operating
26 according to your definition, but I see no harm in
27 receiving deposits providing the only use they could
28 make of the deposits is to allow the owner to withdraw
29 them, but if they make them in order to secure funds
30 for banking purposes, then they should not. I believe



COMMISSIONER GIBSON: Do you think it is

logical you should have gone into the mortgage business

MR. VANIER: Of your, most logical because

this is exactly the kind of credit favors me. I

believe you will agree with me on that point.

you, but I don't know why you say it is not logical

you should do some sort of change?

MR. VANIER: I did not say it is not logical.

I say it is particularly logical under present

circumstances. It may be less under other circumstances

That is all I mean. But I believe there are things

we could easily handle with benefit for our clientele,

since they are offered by others who are subject to

no limitations at all. So, why would not we do it?

We are in a position to do it just as well and just as

profitably for ourselves and the clientele.

MR. RAINVILLE: And for the Government too

because we pay taxes

MR. VANIER: We are quite an associate of

the Government.

COMMISSIONER BROWN: Would you be in favor

of the mutual fund people accepting deposits?

MR. VANIER: Well, if they are operating

according to your definition, but I see no harm in

receiving deposits providing the only use they could

make of the deposits is to allow the owner to withdraw



1 my definitions are not so bad after all. I was glad
2 to receive your criticism, and I see that I now have
3 more confidence in them than I had this morning.

4 THE CHAIRMAN: (Translation from the French)
5 Mr. Vanier, thank you very much for accepting our
6 invitation and for submitting such an interesting
7 brief which will receive our closest consideration.

8 MR. VANIER: (Translation from the French)
9 I thank you for your kind words, Mr. Chairman, and
10 particularly for expressing them in French.

11 THE CHAIRMAN: We shall now adjourn, and
12 the next meeting of the Commission will be held on
13 Monday, June 4th, at 9.15 A.M. in Fredericton, New
14 Brunswick.

15 ---- Adjournment.
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1 definitions are not so bad after all. I was glad
2 to see your criticism, and I see that I now have
3 confidence in him than I had this morning.

4 THE CHAIRMAN: (Translation from the French)

5 Mr. Vanier, thank you very much for accepting our
6 invitation and for submitting such an interesting
7 brief which will receive our closest consideration.
8 MR. VANIER: (Translation from the French)

9 Thank you for your kind words, Mr. Chairman, and
10 particularly for expressing them in French.

11 THE CHAIRMAN: We shall now adjourn, and
12 the next meeting of the Commission will be held on
13 Monday, June 25th, at 9.15 A.M. in Fredericton, New

14 Brunswick.

15 --- Adjourned.

4

Royal Commission on Banking and Finance

Hearings
held at
Montreal

Vol.

17 A

Date.

May 17 1962



Official Reporters
F. J. Pethercut and R. J. Young
Toronto, Ont.



INDEX

Page

Quebec Savings Bank

1. ...

2. ...

3. ...

4. ...

5. ...

6. ...

7. ...

8. ...

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10. ...

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Nethercut & Young
Toronto, Ontario

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27
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VOLUME 17A

INDEX

Page No

Quebec Savings Banks

A 1593-A 1706



SUMMARY

Purpose of Brief: 1. The purpose of this brief is to present a complete and detailed picture of the Quebec savings banks. Particular attention has been given to the topics suggested for discussion but care has been taken to avoid unnecessary details.

Monetary Policy: 2. The Quebec savings banks believe that, since the Commission will receive from other sources more complete data on this subject, they should limit themselves to the comments they consider of special importance.

3. Generally speaking, monetary policy as presently applied is satisfactory. But, although monetary policy must be kept flexible, it cannot be counted upon to settle all economic problems. A close coordination of monetary and fiscal policies is also necessary.

Thrift and its Role in the Economy:

4. Much has been said about the importance of thrift, its role in the economy, how and why it should be encouraged. These things should be remembered and more efforts spent to encourage the thrifty.

Capital Market:

5. A properly functioning capital market should insure the financing, at reasonable conditions, of the various governing bodies, public and private enterprises.

6. The allocation of resources should be done only when, and to the extent, necessary.

Financial System:

7. The financial market can be judged to



1 function adequately if it helps to maintain a satisfactory
2 rate of development of the country's economy, to insure
3 stability of prices, to provide the financial resources
4 necessary for the establishment and expansion of
5 enterprises and finally to assure a continued prosperity
6 and a high standard of living for most citizens.

7 SECTION I - GROWTH AND STRUCTURE OF THE QUEBEC
8 SAVINGS BANKS

9 Origin of the Quebec Savings Banks:

10 8. Prior to the establishment of The
11 Montreal City and District Savings Bank there had been
12 a Savings Bank in Montreal, but it was in the throes
13 of liquidation and investigation by a Royal Commission.

14 9. People did not have much confidence in
15 Banks and the commercial banks were not interested in
16 the savings of the common people. The Archbishop of
17 Montreal, on the advice of public spirited businessmen,
18 called upon a group of seventy-five outstanding citizens
19 for their help in establishing an institution to promote
20 thrift. They founded The Montreal City and District
21 Savings Bank which started its operations on May 26,
22 1846.

23 10. The Caisse d'Economie de Notre-Dame
24 de Quebec, now called The Quebec Savings Bank, was
25 established on May 21, 1848.

26 11. They were, at first and until 1871, mutual
27 and philanthropic institutions operating under the
28 general "Savings Banks Act of 1841".

29 Change from Mutuals to Stock Corporations:

30 12. When Confederation was established in
Canada banks and banking came under the purview of the



1 Dominion Government and, in 1871, the Quebec savings
2 banks ceased operating as mutuals and were granted
3 Royal Charters.

4 Capitalization:

5 13. The capitalization of The Montreal City
6 and District Savings Bank was set at two million dollars
7 and that of The Caisse d'Economie de Notre-Dame de
8 Quebec at one million dollars.

9 Assistant Receiver General for the District
10 of Montreal:

11 14. In 1871, The Montreal City and District
12 Savings Bank was appointed Assistant Receiver General
13 for the District of Montreal and continued to discharge
14 this important function until 1935, when the Bank of
15 Canada was established. The personnel of the Assistant
16 Receiver General for the District of Montreal, which had
17 been recruited from the ranks of The Montreal City
18 and District Savings Bank, joined the Montreal Office
19 of the Bank of Canada.

20 Branches and Personnel:

21 15. The Montreal City and District Savings
22 Bank has 55 branch offices, all on the Island of
23 Montreal except one, and a staff of 800 full time and 126
24 part-time employees. It owns all its branch buildings.

25 16. The Quebec Savings Bank has 19 branches,
26 all in the City of Quebec and suburbs and its staff
27 numbers 139.

28 Legislation Governing Operations of the Quebec
29 Savings Banks:

30 17. From 1871 to 1948, there were no major

banks ceased operating as mutuals and were granted Royal Charters.

Capitalization:

13. The capitalization of The Montreal City and District Savings Bank was set at two million dollars and that of The Caisse d'Economie de Notre-Dame de Quebec at one million dollars.

Assistant Receiver General for the District

of Montreal:

14. In 1871, The Montreal City and District Savings Bank was appointed Assistant Receiver General for the District of Montreal and continued to discharge this important function until 1935, when the Bank of Canada was established. The personnel of the Assistant Receiver General for the District of Montreal, which had been recruited from the ranks of The Montreal City and District Savings Bank, joined the Montreal Office of the Bank of Canada.

Branches and Personnel:

15. The Montreal City and District Savings Bank had 55 branch offices, all on the Island of Montreal except one, and a staff of 800 full time and 12 part-time employees. It owns all its branch buildings. 16. The Quebec Savings Bank has 19 branches.

Numbers 185.

Capitalization Operations of the Quebec

Savings Banks:

17. From 1871 to 1948, there were no major



1 changes in the laws. In that year, the savings banks
2 were authorized to make mortgage loans and personal loans.

3 18. The 1944 revision of the Quebec Savings
4 Banks Act defined more clearly the areas where each of
5 the two savings banks could operate.

6 19. In essence, the present "Quebec Savings
7 Banks Act" parallels closely the Canadian Bank Act
8 which regulates the commercial banks.

9 General Powers:

10 20. The act deals with the matters usually
11 found in legislation of this kind. Many of the subjects
12 covered need not be commented upon but others deserve
13 attention since they give an accurate picture of the
14 conditions under which the Quebec savings banks operate.

15 Statutory Limitation of Branch Locations:

16 21. The Act defines the meaning of "District
17 of Montreal" and "District of Quebec" for the purposes
18 of the Act and the judicial districts comprised in the
19 area where each bank is authorized to operate.

20 Cash and Additional Reserves:

21 22. First reserve must be equal to at least
22 five per cent of the deposit liabilities of the bank
23 and must be in the form of notes of the Bank of Canada,
24 or deposits with the Bank of Canada or with the chartered
25 banks.

26 23. Secondary reserve must be equal to at least
27 15 per cent of the bank's deposit liabilities. This
28 reserve must be in the form of notes of the Bank of
29 Canada, deposits with the Bank of Canada or with the
30 chartered banks, securities of or guaranteed by the

the laws. In that year, the savings banks were authorized to make mortgage loans and personal loans. 16. The 1944 revision of the Quebec Savings Banks Act defined more clearly the areas where each of the two savings banks could operate.

17. In essence, the present "Quebec Savings Banks Act" parallels closely the Canadian Bank Act which regulates the commercial banks.

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18. The act deals with the matters usually found in legislation of this kind. Many of the subjects covered need not be commented upon but others deserve attention since they give an accurate picture of the conditions under which the Quebec savings banks operate.

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19. The Act defines the meaning of "District of Montreal" and "District of Quebec" for the purposes of the Act and the judicial districts comprised in the areas where each bank is authorized to operate.

Cash and Additional Reserves:

20. These reserves must be equal to at least five per cent of the deposit liabilities of the bank and must be in the form of notes of the Bank of Canada or deposits with the Bank of Canada or with the chartered

21. Secondary reserve must be equal to at least 15 per cent of the bank's deposit liabilities. This reserve must be in the form of notes of the Bank of Canada, deposits with the Bank of Canada or with the chartered banks, securities of or guaranteed by the



1 Government of Canada or of a province.

2 Unrestricted Investments:

3 24. The savings banks, after complying
4 with the above reserve requirements, are authorized
5 to invest freely in the securities of or guaranteed by the
6 Government of Canada or the provinces thereof, the
7 United Kingdom and its colonies, the Government of any
8 country of the British Commonwealth, the Government
9 of the United States or of any of the States, Canadian
10 Municipal corporations, school corporations in Canada
11 whose revenues are derived from taxes, securities of
12 ecclesiastical or religious corporations incorporated
13 in Canada, of Fabriques de Paroisse or Syndics issued
14 under the Parish and Fabrique Act of the Province of
15 Quebec, hospital or sanatorium corporations in the
16 Province of Quebec and Canadian Railway equipment
17 securities.

18 Securities in which Investment is restricted:

19 25. In this group are included the bonds,
20 debentures and first preferred shares of Canadian
21 corporations meeting certain requirements, the shares
22 of any Canadian commercial bank and other securities
23 approved by the Treasury Board. The total book value
24 of above investments must not exceed 15 per cent of the
25 bank's deposit liabilities.

26 26. Since 1957, the Quebec savings banks have
27 been permitted to invest in the securities and shares of
28 Canadian corporations, not in default of principal or
29 interest, provided the aggregate value of such investments
30 does not exceed 50 per cent of the paid-up Capital and



Government of Canada or of a province.

Investment:

1. The Government of Canada

with the above reserve requirements, are authorized

to invest freely in the securities of or guaranteed by the

Government of Canada or the provinces thereof, the

United Kingdom and its colonies, the Government of any

country of the British Commonwealth, the Government

of the United States or of any of the States, Canadian

Municipal corporations, school corporations in Canada

whose revenues are derived from taxes, securities of

ecclesiastical or religious corporations incorporated

in Canada, of Corporations de Paroisses or Syndics issued

under the French and Fribourg Act of the Province of

Quebec, hospital or sanatorium corporations in the

Province of Quebec and Canadian Railway equipment

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Securities in which investment is restricted:

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corporations meeting certain requirements, the shares

of any Canadian commercial bank and other securities

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of above investments must not exceed 15 per cent of the

bank's deposit liabilities.

3. Since 1937, the Quebec savings banks have

been permitted to invest in the securities and shares of

Canadian corporations, not in default of principal or

interest, provided the aggregate value of such investment

does not exceed 50 per cent of the paid-up capital and



1 Rest Account of the Bank.

2 Mortgage Loans:

3 27. Savings banks may lend on mortgages
4 covered by the National Housing Act and on conventional
5 first mortgages.

6 28. The following restrictions apply to loans
7 in the last category. Each loan must not exceed the
8 lesser of \$100,000 or 60 per cent of the bank's evaluation
9 of the property, and there must be a building on the
10 property of which at least one half of the floor space
11 is used for residential purposes.

12 Secured Loans and Advances:

13 29. Savings banks are not allowed to discount
14 commercial paper.

15 30. Loans may be made on the securities in
16 which the bank may invest freely and, under certain
17 conditions, on the shares of a commercial bank or the
18 securities of a corporation in the restricted group.

19 Unsecured Loans:

20 31. The savings banks may lend money, without
21 security, to the Government of Canada or any province,
22 to Canadian municipalities, school corporations,
23 religious corporations, Fabriques de Paroisse, hospitals
24 or sanatoria in the Province of Quebec and, under
25 certain conditions, to other Canadian corporations.

26 32. Personal loans may also be made up to
27 \$5,000.

28 33. Total amount of unsecured loans must not
29 exceed 5 per cent of the bank's deposit liabilities.

30 Bank Premises:

34. The banks may own all the real estate



Rest Account of the Bank.

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covered by the National Housing Act and on conventional first mortgages.

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security, to the Government of Canada or any province,

to Canadian municipalities, school corporations,

religious corporations, Fabriques de Paroisse, hospitals

or sanatoria in the Province of Quebec and, under

certain conditions, to other Canadian corporations.

32. Personal loans may also be made up to

\$25,000.

33. Total amount of unsecured loans must not

exceed 5 per cent of the bank's deposit liabilities.

34. The banks may own all the real estate



1 necessary for their present or future operations.

2 But, whenever a property is not required for the use
3 of the bank, it must be sold within a period of seven
4 years.

5 Interests and Charges:

6 35. The banks are not allowed to charge
7 a rate of interest or discount higher than 6 per cent
8 on loans, except mortgage loans. Rates for collection
9 charges are also specified.

10 Analysis of Banking Functions:

11 36. A bank may be defined as an institution
12 which deals in money and credit and the principal
13 operations of which are to receive, keep and pay, borrow
14 and loan capital in the form of money.

15 37. In the past, the functions of banking
16 seemed clear enough in the minds of most people. With
17 the advent of new types of financial institutions and
18 their invasion of the banking field, the question has
19 been raised. These institutions add to the confusion
20 by pretending that, since they do not call themselves
21 "banks", their operations are not banking operations.
22 Such superficial reasoning does not change the facts.

23 Controls and their Purpose:

24 38. Most countries exercise close control over
25 banking. The main reasons being the protection of the
26 savings of the individuals and the importance of the
27 role played by the banks in the economy of each nation.
28 Such controls are necessary, but they should equally
29 apply to all institutions who receive deposits from the
30 public. The Quebec savings banks are not opposed to



The Banks and Clergy:

35. The banks are not allowed to charge

a rate of interest or discount higher than 6 per cent
on loans, except mortgage loans, for collection
charges are also specified

Analysis of Banking Functions:

36. A bank may be defined as an institution

which deals in money and credit and the principal

operations of which are to receive, keep and pay, borrow
and issue capital in the form of money.

37. In the past, the functions of banking
seemed clear enough in the minds of most people. With
the advent of new types of financial institutions and
their invasion of the banking field, the question has
been raised. These institutions add to the confusion
by pretending that, since they do not call themselves
"banks", their operations are not banking operations.
Such a superficial reasoning does not change the facts.

38. Most countries have as their object the
control of the banks in the economy of each nation
by the means of the supervision and the importance of the
savings of the institutions and the importance of the
role played by the banks in the economy of each nation.
Such controls are necessary, and they should be applied
to all institutions which receive deposits from the
public.



1 supervision and control per se, but they object to
2 excessive restrictions and to discrimination which
3 create unfair advantages for certain categories of
4 their competitors who have invaded the banking field.
5 In addition, some competitors are tax exempt and that
6 gives them a tremendous advantage.

7 The Functions of Savings Banks:

8 39. The Quebec savings banks consider that,
9 as such, they have two main objectives:

- 10 (a) to insure the highest degree of security
11 for the monies entrusted to them;
12 (b) to provide a complete financial service
13 to the individual and the family.

14 Legislation Governing Savings Banks Operations:

15 40. Generally speaking, the Quebec Savings
16 Banks Act compares favourable with the laws governing
17 savings banks in other countries, but the powers
18 granted to our own savings banks could advantageously
19 be enlarged. This would allow the Quebec savings
20 banks to fulfil their proper role and better serve their
21 customers.

22 Reserve Requirements:

23 41. Present reserve requirements are more
24 than sufficient. Authorities on the subject and
25 students of banking agree that an increase in require-
26 ments, if applies to savings deposits, would serve no
27 useful purpose.

28 Possible Additional Services:

29 42. In addition to the specific changes
30 recommended by the Quebec savings banks, it would be



in French

supervision and control per se, but they object to excessive restrictions and to discrimination which

their competitors who have invaded the banking field. In addition, some competitors are tax exempt and that gives them a tremendous advantage.

The Functions of Savings Banks:

39. The Quebec savings banks consider that,

as such, they have two main objectives:

- (a) to insure the highest degree of security for the monies entrusted to them;
- (b) to provide a complete financial service to the individual and the family.

Legislation Governing Savings Banks Operations:

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savings banks in other countries, but the powers

granted to our own savings banks could advantageously

be enlarged. This would allow the Quebec savings

banks to fulfil their proper role and better serve their

customers.

Reserve Requirements:

41. Present reserve requirements are more

than sufficient. Authorities on the subject and

students of banking agree that an increase in require-

ments, if applied to savings deposits, would serve no

useful purpose.

Possible Additional Services:

42. In addition to the specific changes



1 advantageous that they be allowed to render additional
2 services to their customers, such as the sale of
3 savings Bank Life Insurance, the establishment of their
4 own Mutual Fund, the establishment of a Real Estate
5 Investment Trust with sales to or participation by
6 depositors, and the handling of trust accounts for their
7 depositors.

8 PROPOSED AMENDMENTS TO THE QUEBEC SAVINGS BANKS ACT

9 Section 12 -- Qualification of Directors:

10 43. Because of the large increase in the market
11 value of the Quebec savings banks' shares in recent
12 years, it might be financially impossible, under the
13 present statutory requirements, for many candidates
14 otherwise qualified to be elected to the Board of
15 Directors. The savings banks therefore recommend that
16 Section 12 of the Act be modified, in order to reduce
17 to 100 the minimum number of shares required for
18 qualification as a director.

19 Capital Stock:

20 44. It seems advisable that the Quebec
21 savings banks be authorized to split their shares in order
22 to make them more accessible to small investors, and
23 that no par value shares be substituted to par value
24 shares.

25 45. Price limitation on the issue of new
26 share capital should be removed and the price at which
27 new shares may be issued should be fixed by the
28 Directors of the bank.

29 Section 59 -- Bonds of Public Utility Companies:

30 46. The savings banks recommend that bonds of



services to their customers, such as the sale of

own Mutual Fund, the establishment of a Real Estate
Investment Trust with sales to or participation of

depositors.

PROPOSED AMENDMENTS TO THE QUEBEC SAVINGS BANKS ACT

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to 100 the minimum number of shares required for

qualification as a director.

Capital Stock:

44. It seems advisable that the Quebec

savings banks be authorized to apply their shares in order

to make them more accessible to small investors, and

that no par value shares be accredited to par value

shares.

45. Where limitation on the issue of new

share capital should be removed and the issue of which

new shares may be issued should be fixed by the

Directors of the bank.

Section 29 -- Power of Public Utility Commission:

46. The power of public utility companies to



1 large public utilities, which are now included in the
2 group of restricted investments, be included in the
3 group of unrestricted investments under certain
4 reservations. They also recommend that the present
5 15 per cent limitation, imposed by section 59 of the
6 Act, be raised to 20 per cent of deposit liabilities.

7 Section 63 --(g) - Loans and Advances without
8 Security:

9 47. Because of an expected increase in the
10 demand for loans by Religious Corporations, Syndics
11 or Fabriques de Paroisse, and for Personal Loans,
12 the banks recommend that the present limitation to
13 5 per cent of deposit liabilities, for aggregate amount
14 of unsecured loans, be increased to 10 per cent.
15 Because of possible creeping inflation and other reasons,
16 the limitation to \$5,000, for any one personal loan should
17 be raised to \$10,000.

18 Section 64 - Mortgage Loans:

19 48. A large increase in the demand for
20 mortgage loans, in coming years, is expected in the
21 Montreal and Quebec areas. For this reason, the Quebec
22 savings banks recommend that the present 40 per cent
23 limit to deposit liabilities be increased to 60 per
24 cent, excluding loans made under the National Housing
25 Act. Also that the statutory limitation, for each
26 loan, be increased as to the amount and the valuation
27 percentage, and that the residential requirements be
28 removed. The savings banks also ask the authorization
29 to make other than first conventional mortgage loans,
30 with certain limitations.



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group of unrestricted investments under certain
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15 per cent limitation, imposed by section 59 of the
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out

47. Because of an expected increase in the
demand for loans by Religious Corporations, Syndics
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5 per cent of deposit liabilities, for aggregate amount
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the limitation to \$5,000, for any one personal loan should
be raised to \$10,000.

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48. A large increase in the demand for
mortgage loans, in coming years, is expected in the
Montreal and Quebec areas. For this reason, the Quebec
limit to deposit liabilities be increased to 60 per
cent, excluding loans made under the National Housing
Act. Also that the statutory limitation, for each
loan, be increased as to the amount and the valuation
percentage, and that the residential requirement be
removed. The savings banks also ask the authorization
to make other than first conventional mortgage loans.



1 Policy in Regard to Opening of New Branches:

2 49. A survey is made of the density of
3 population within a half mile radius of the intended
4 location, and consideration given to the number of
5 competitors in the area and to other important factors.

6 50. The time required to reach a profitable
7 stage in operations varies considerably and no precise
8 answer can be given. Decision for the establishment
9 of a branch is based on experience in weighing these
10 factors and no right rules can be counted upon.

11 Statutory Limitation of Branch Location:

12 51. Territorial limitation has certain
13 advantages but should apply also to other categories
14 of financial organizations seeking savings deposits.
15 A certain density of population is necessary for a
16 branch to operate profitably within a reasonable period
17 of time. Too intense competition may result in unprofit-
18 able branches for all institutions concerned.

19 Internal Organization of the Quebec Savings Banks:

20 52. Each savings bank is managed by a Board
21 of Directors who make by-laws with respect to any matter
22 concerning the policies of the bank and the administration
23 of its affairs. They are chosen for their experience
24 and are responsible to the shareholders. They may
25 appoint as many officers and employees they consider
26 necessary.

27 53. The permanent staff of each bank consists
28 of the executive officers, heads of departments, branch
29 managers and clerical workers.
30



Policy in Regard to Opening of New Branches:

49. A survey is made of the density of population within a half mile radius of the intended location, and consideration given to the number of competitors in the area and to other important factors. 50. The time required to reach a profitable stage in operations varies considerably and no precise answer can be given. Location for the establishment of a branch is based on experience in weighing these factors and no right rules can be counted upon.

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of Directors who make by-laws with respect to any matter concerning the policies of the bank and the administration of its affairs. They are chosen for their experience and are responsible to the shareholders. They may appoint as many officers and employees they consider necessary.

53. The permanent staff of each bank consists

of the executive officers, heads of departments, branch managers and clerical workers.



1 Executive Officers of The Montreal City
2 and District Savings Bank:

3 54. The executive officers of this bank are
4 the General Manager, the Assistant General Manager,
5 the Chief Accountant, the Executive Secretary and
6 Manager of New Business Department, the Chief Inspector
7 and the Comptroller. The duties and responsibilities
8 of each officer are detailed in the brief.

9 Internal Control, Inspection and Safeguards:

10 55. A yearly audit is made of each branch
11 by the Inspector and his staff. A continuous checking
12 is made in all sectors of the bank's operations.
13 Experience concerning fraud and dishonesty, compares
14 very favourable with other institutions. To increase
15 the efficiency of the personnel and safeguard against
16 possible losses due to incompetence, all employees
17 attend training courses.

18 Budget and Reports to the Board of Directors:

19 56. An annual budget is prepared by a
20 special committee. Monthly report of expenses, quarterly
21 reports on earnings and expenses, and projection of the
22 probable earnings and expenses for the coming five
23 years are submitted to the Board of Directors.

24 Executive Officers of The Quebec Savings Bank:

25 57. The executive officers of this bank are
26 the General Manager, the Chief Inspector, and the
27 Secretary and Chief Accountant. The duties and
28 responsibilities of each officer are detailed in the
29 brief and most of the remarks in regard to control,
30 inspection and safeguards in The Montreal City and



Executive Officers of The Montreal City

and District Savings Bank:

54. The executive officers of this bank are

the General Manager, the Assistant General Manager,

the Chief Accountant, the Executive Secretary and

Manager of New Business Department, the Chief Inspector

and the Comptroller. The duties and responsibilities

of each officer are detailed in the brief.

Internal Control, Inspection and Safeguards:

55. A yearly audit is made of each branch

by the Inspector and his staff. A continuous checking

is made in all sectors of the bank's operations.

Experience concerning fraud and dishonesty, compares

very favourable with other institutions. To increase

the efficiency of the personnel and safeguard against

possible losses due to incompetence, all employees

are trained in the following manner:

Budget and Reports to the Board of Directors:

56. An annual budget is prepared by a

special committee. Monthly report of expenses, quarterly

reports on earnings and expenses, and projection of the

probable earnings and expenses for the coming five

years are submitted to the Board of Directors.

Executive Officers of The Quebec Savings Bank:

57. The executive officers of this bank are

the General Manager, the Chief Inspector, and the

Secretary and Chief Accountant. The duties and

responsibilities of each officer are detailed in the

brief and most of the remarks in regard to control,

inspection and safeguards in The Montreal City and



1 District Savings Bank also apply.

2 Shareholders' Audit:

3 58. Two auditors, who have been chartered
4 accountants for at least six years, are appointed by
5 the Shareholders at the Annual Meeting. They make
6 an examination of the Head Office cash and the securities
7 and loans, review reports of internal inspection and
8 satisfy themselves that the procedure is adequate
9 and the inspection methods satisfactory. They submit,
10 at end of fiscal year, a certificate to that effect
11 to the Directors of the bank.

12 Government Inspection:

13 59. The Inspector General of Banks, appointed
14 by the Governor in Council, makes a yearly examination
15 of the affairs of the bank to ascertain that the
16 provisions of the Quebec Savings Banks Act are observed
17 and that the bank is in a sound financial condition.
18 He reviews the periodic reports submitted by the
19 bank to the Minister of Finance and the Bank of Canada.



1 SECTION - II - ASSET MANAGEMENT

2 Policies and Practices Relative to

3 Cash and Liquid Reserves:

4 60. The Quebec savings banks keep a Cash
5 Reserve of approximately 10 per cent of their deposit
6 liabilities as compared to the 5 per cent minimum
7 required by the Act.

8 61. Holdings of Government of Canada and
9 Provincial bonds exceed by far the 15 per cent deposit
10 liabilities also required by the Act.

11 62. The Cash maintained in Bank of Canada
12 is essentially to meet Clearing commitments. The savings
13 banks also have in safekeeping with the Bank of Canada
14 large amounts of Government of Canada Bonds pledged as
15 collateral for possible advances. They have seldom
16 availed themselves of these loan facilities.

17 63. The Savings Banks have a good portion
18 of their Cash Reserve on deposit with the chartered
19 banks.

20 64. Factors which favourable influence
21 the availability of reserves are: an increase in
22 deposits by the public, repayments on loans, matured
23 bonds and coupons from bond investments.

24 65. Conversely, important withdrawals by
25 depositors adversely affect these reserves.

26 66. Excess over normal reserve is invested.
27 Any deficiency is replenished by calling back Day-to-
28 Day Loans or selling short term securities.

29 67. Changes that might be contemplated in
30 regard to cash and liquidity requirements for the purpose



and Financial Relations

on and under Reserves:

60. The Quebec savings banks keep a Cash

Reserve of approximately 10 per cent of their deposit

Liabilities as compared to the 7 per cent minimum

required by the Act.

61. Holdings of Government of Canada and

Provincial bonds exceed by far the 15 per cent deposit

liabilities also required by the Act.

62. The Cash maintained in Bank of Canada

is essentially to meet clearing commitments. The savings

banks also have in safekeeping with the Bank of Canada

large amounts of Government of Canada Bonds pledged as

collateral for postal advances. They have also

availed themselves of these loan facilities.

63. The Savings Banks have a good portion

of their Cash Reserve on deposit with the Chartered

64. Factors which favorable influence

the availability of reserves are: an increase in

deposits of the public, repayments on loans, matured

bonds and coupons from bond investments.

65. Conversely, important withdrawals by

depositors adversely affect these reserves.

66. Excess over normal reserves is thereby

any deficiency is replenished by selling back Bank for-

ward loans or selling short term securities.

67. The latter may be contemplated in

order to cash and liquidity requirements for the purpose



1 of tightening control over money and credit would not,
2 if applied to the Quebec savings banks, serve any useful
3 purpose or appreciably increase the effectiveness of
4 monetary policy.

5 68. Any change of that nature should be
6 restricted to commercial banks and other financial
7 institutions whose operations strongly influence the
8 volume of money and credit.

9 Investment Policies:

10 69. The savings banks always have in mind
11 their responsibility as custodians of the public's
12 savings, and their investment policy is determined
13 accordingly by the Board of Directors after consultation
14 with Management.

15 Scope of Lending Powers:

16 70. Developments in recent years have rendered
17 lending powers in mortgages and personal loans too
18 restrictive.

19 71. Savings banks wish to keep their
20 identity as savings banks and are not interested in
21 making loans to industry and commerce. They prefer
22 to provide full banking services to the individual
23 and the family.

24 Mortgage Loans:

25 72. Mortgage loans, especially conventional
26 mortgages, are nearly as liquid as bonds because of the
27 regular instalments and the relatively short term of
28 the loans, a large number of which are for five years.

29 73. The banks believe that a secondary
30 market for mortgages would be advantageous.



1 74. They feel justified in asking for
2 amendments to Section 64 of the Act and would like to
3 obtain at least the same lending powers, in the mortgage
4 field, as their competitors.

5 Personal Loans:

6 75. Personal loans are requested in ever
7 larger numbers and amounts, and present restrictions
8 should, in the banks' opinion, be decreased. There is
9 a growing tendency to borrow for large consumer
10 expenditures rather than to save for them. Thus
11 the savings process has become the repayment of the loan
12 after the purchase has been made, instead of the building
13 up of the account prior to the purchase.

14 Investments in Securities:

15 76. The Quebec savings banks' investments
16 in securities have been mostly in Government, Provincial
17 and Municipal Bonds. They also have, in lesser amounts,
18 corporate bonds and bonds of Religious Corporations
19 and Fabriques de Paroisse. Most bonds mature within
20 ten years.

21 POLICIES AND PRACTICES WITH RESPECT TO
22 MORTGAGES AND LOANS

23 Conventional Mortgages:

24 77. Conventional Mortgages are usually
25 made for terms of five to twenty years and repayable
26 by semi-annual instalments of $2\frac{1}{2}$ per cent on capital,
27 plus interest, or by monthly instalments amortized
28 over a period not exceeding 20 years.

29 78. For five year loans, if repayments are
30 made regularly and everything is in order, each loan



1 is renewed for another five years and this procedure
2 is repeated at the end of each succeeding five year
3 period until the loan is fully paid.

4 79. Applications are screened by the
5 Mortgage Department and a special committee and
6 submitted to the Board of Directors.

7 N.H.A. Mortgages:

8 80. These are insured mortgage loans
9 subject to Government regulations and amortized, by
10 monthly instalments, over periods from 20 to 35
11 years.

12 Loans against Collateral Security:

13 81. These loans are made to individuals,
14 stock brokers and investment dealers, and are callable
15 on demand. Day-to-day loans are made to investment
16 dealers, on a four hour call, and are secured by
17 Treasury Bills and Government of Canada bonds maturing
18 within three years.

19 82. Loans against collateral, up to
20 \$25,000 are approved by the Chief Accountant or his
21 Assistant; above that amount, by the General Manager
22 or his Assistant. All loans of \$5,000, or over must be
23 confirmed by the Board of Directors.

24 Personal Loans:

25 83. These loans are for periods not
26 exceeding three years. Loans, up to \$2,000 are
27 approved by the Manager of the Personal Loans Department;
28 above that amount, by the Comptroller. They are
29 confirmed by the Board of Directors. Losses are small.
30

is repeated at the end of each succeeding five year

period until the loan is fully paid.

79. Applications are screened by the

Mortgage Department and a special committee and

submitted to the Board of Directors.

80. There are insured mortgage loans

subject to Government regulations and amortized, by

monthly instalments, over periods from 20 to 35

years.

Loans against Collateral Security:

81. These loans are made to individuals,

stock brokers and investment dealers, and are callable

on demand. Day-to-day loans are made to investment

dealers, on a four hour call, and are secured by

Treasury Bills and Government of Canada bonds maturing

within three years.

82. Loans against collateral, up to

\$25,000 are approved by the Chief Accountant or his

Assistant; above that amount, by the General Manager

or his Assistant. All loans of \$5,000, or over must be

confirmed by the Board of Directors.

Personal Loans:

83. These loans are for periods not

exceeding three years. Loans, up to \$5,000 are

approved by the Manager of the Personal Loans Department;

above that amount, by the Comptroller. They are

confirmed by the Board of Directors. Loans are small.



1 Loans to Religious Corporations, Syndics
2 and Fabriques de Paroisse.

3 84. These loans are made to religious
4 corporations of all creeds and nationalities, usually
5 for a maximum term of ten years; additional protection
6 is secured through a first mortgage and pledges from
7 members of the congregation.

8 85. Loans to Syndics are covered by a
9 levy or reparation on the properties owned by Roman
10 Catholics in the parish.

11 86. Fabriques de Paroisse, when applying
12 for loans, must comply with strict regulations from
13 their Archbishop.

14 Credit Shortage:

15 87. When credit is in short supply, requests
16 are scrutinized more closely. The savings banks try
17 to satisfy the largest number of borrowers rather than
18 making a few large loans.

19 Lending Rates:

20 88. The savings banks' lending rates are
21 generally in line with those of the other banks. This
22 policy does not apply to mortgage loans.

23 89. Changes in economic conditions, so far,
24 have not been accompanied by any noticeable difference
25 in the demand for funds. Because of the 6 per cent
26 ceiling, the spread in rates has been narrow and
27 thus the rate has never been an important factor.

28 90. The 6 per cent ceiling appears too low
29 and should be revised upwards.

and Repurchase of Treasury

84. These loans are made to religious corporations of all creeds and nationalities, usually for a maximum term of ten years; additional protection is secured through a first mortgage and pledges from members of the congregation.

85. Loans to Synods are covered by a levy on registration on the properties owned by Roman Catholics in the parish.

86. Repurchase of Treasury, when applying for loans, must comply with strict regulations from their Archbishop.

Credit Shortage:

87. When credit is in short supply, requests are scrutinized more closely. The savings banks try to satisfy the largest number of borrowers rather than making a few large loans.

88. The savings banks' lending rates are generally in line with those of the other banks. This policy does not apply to mortgage loans.

89. The 6 per cent ceiling appears too low in the demand for funds. Because of the 6 per cent ceiling, the spread in rates has been narrow and thus the rate has never been an important factor.

90. The 6 per cent ceiling appears too low and should be revised upwards.



1 SECTION - III - LIABILITIES

2 Deposits by the Government of Canada:

3 91. They represent purchases of Canada
4 Savings Bonds by the public and allotments, to the
5 savings banks, of Government of Canada issues. They
6 are gradually withdrawn by the Government.

7 Deposits by Provincial Governments:

8 92. The Montreal City and District Savings
9 Bank has no deposits of this category.

10 93. The Quebec Savings Bank has deposits
11 from the Government of the Province of Quebec.

12 Deposits by the Public:

13 94. These are of four categories:

14 (a) Savings Accounts: they bear interest
15 at the rate of 2-3/4 per cent per annum,
16 calculated on the minimum quarterly balance
17 and credited quarterly or semi-annually.
18 Although, in theory they are time deposits,
19 in practice they have always been paid on
20 demand. School Savings Accounts are included
21 in this category.

22 (b) Personal Chequing Accounts: no interest
23 is paid on these accounts.

24 (c) Christmas and Holiday Savings Accounts:
25 these accounts favour methodical savings for
26 a definite purpose and are for a fixed term.

27 (d) Certificates of Deposit: are issued for
28 fixed amounts left on deposit for not less
29 than 90 days. Interest is calculated from the
30 date of issue to the date of reimbursement.



SECTION - III -

Deposits by Provincial Governments:

91. They represent purchases of Canada Savings Bonds by the public and allotments, to the savings banks, of Government of Canada issues. They are gradually withdrawn by the Government.

Deposits by Provincial Governments:

92. The Montreal City and District Savings Bank has no deposits of this category.

93. The Quebec Savings Bank has deposits from the Government of the Province of Quebec.

Deposits by the Public:

94. These are of four categories:

(a) Savings Accounts: they bear interest at the rate of 2-3 1/4 per cent per annum, calculated on the minimum quarterly balance and credited quarterly or semi-annually.

Although, in theory they are time deposits, in practice they have always been paid on demand. School Savings Accounts are included in this category.

(b) Personal Chequing Accounts: no interest is paid on these accounts.

(c) Christmas and Holiday Savings Accounts: these accounts favour methodical savings for a definite purpose and are for a fixed term.

(d) Certificates of Deposit: are issued for fixed amounts left on deposit for not less than 90 days. Interest is calculated from the date of issue to the date of reimbursement.



Poor Funds:

95. They are accumulated surpluses prior to 1871, after reserves for depreciation and possible losses had been created. These surpluses stood at \$180,000 for The Montreal City and District Savings Bank and at \$83,000 for The Quebec Savings Bank. Revenue is distributed yearly to charitable organizations.

Interest and Deposits:

96. As a rule, the savings banks have granted depositors the same rate of interest paid by commercial banks.

97. In periods of credit expansion deposits rise more rapidly. Changes in savings banks' interest rates have not brought important deposit shifts.

98. The recent United States experiment, in raising rates, has not been too happy and many banks wish the rate war had never started.

Deposit Insurance:

99. Because of their liquidity and the high quality of their assets, the Quebec Savings banks are not convinced of the necessity of established Deposit Insurance.



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95. They are accumulated surpluses prior to 1871, after reserves for depreciation and possible losses had been created. These surpluses stood at \$100,000 in 1871 for The Quebec Savings Bank and at \$82,000 for The Quebec Savings Bank.

Interest and Deposits:

96. As a rule, the savings banks have granted depositors the same rate of interest paid by commercial banks. In periods of credit expansion deposits rise more rapidly. Changes in savings banks' interest rates have not brought important deposit shifts. 98. The recent United States experiment, in raising rates, has not been too happy and many banks wish the rate war had never started.

99. Because of their liquidity and the high quality of their assets, the Quebec Savings banks are not convinced of the necessity of established Deposit Insurance.



SECTION - IV - RELATIONS WITH OTHER FINANCIAL
INSTITUTIONS

Debt of Financial Institutions held by

Quebec Savings Banks:

100. The proportion of such bonds to total bond investments held by the Quebec savings banks is practically nil. The same apply to short-term financial paper.

Competition between the Quebec Savings Banks:

101. Since each savings bank is limited to a certain area, in its operations, there is no competition between the two institutions.

Services offered by the Quebec Savings Banks:

102. The services offered by the Quebec savings banks cover nearly the same range as those offered by the commercial banks.

103. The main differences being that savings banks cannot discount commercial paper, whereas commercial banks are not allowed to make conventional mortgage loans.

104. The savings banks give particular attention to those services which are of special interest to the individual and the family.

Competition with other Financial Institutions:

105. (a) Commercial Banks: Their competition is considered fair.

106. (b) Caisses Populaires: They enjoy wider powers than the savings banks and are not submitted to the restrictions and supervision that apply to real banks. They are also tax exempt, an advantage not



WITH OTHER FINANCIAL

Part of Financial Institutions held by

Quebec Savings Banks:

100. The proportion of such bonds to total

bond investments held by the Quebec savings banks

is approximately 10%.

Financial Banks:

Competition between the Quebec Savings Banks:

101. Since each savings bank is limited to

a certain area, in its operations, there is no competition

Services offered by the Quebec Savings Banks:

102. The services offered by the Quebec

savings banks cover nearly the same range as those

offered by the commercial banks.

103. The main differences being that savings

banks cannot discount commercial paper, whereas

commercial banks are not allowed to make conventional

104. The savings banks give particular

attention to those services which are of special interest

to the individual and the family.

Competition with other Financial Institutions:

105. (a) Commercial Banks: Their competition

is considered fair.

106. (b) Business Corporations: They enjoy

wider powers than the savings banks and are not subjected

to the restrictions and supervision that apply to real

banks. They are also tax exempt, an advantage not



1 enjoyed by the real banks.

2 107. (c) Credit Unions or Caisses d'Economie:

3 The same remarks that apply to the Caisses Populaires
4 also apply to these institutions.

5 108. (d) Trust Companies: Many trust

6 companies have invaded the banking field and, because
7 their investments are less restricted than those of
8 savings banks, they can afford to pay higher rates
9 of interest on deposits.

10 109. (e) Finance Companies: The above

11 comments also apply to some finance companies. If
12 savings need to be protected, some restrictions are
13 in order.

14 Factors influencing the Rate of Growth

15 of the Quebec Savings Banks:

16 110. (a) Favourable Factors: Branch

17 extension is the most important factor; new services
18 and qualified personnel are contributing factors.

19 111. (b) Unfavourable Factors: Restrictions

20 imposed on savings banks as compared with some of their
21 competitors, especially tax exempt institutions, are
22 the unfavourable factors.

23 The Inequity of Tax Exemption accorded to

24 certain Institutions:

25 112. Many institutions have departed from the

26 principles that are supposed to govern their operations,
27 have invaded the banking field and are less motivated
28 by the desire to promote thrift among their members
29 than by a "business purpose". They accumulate profits
30 and build up untaxed surpluses. This preferential



...by the real parties.

107. (c) Credit Institutions

The same remarks that apply to the Chinese companies also apply to these institutions.

108. (d) Trust Companies: Many trust

companies have invaded the banking field and, because their investments are less restricted than those of savings banks, they can afford to pay higher rates of interest on deposits.

109. (e) Finance Companies: The above

comments also apply to some finance companies. If savings need to be protected, some restrictions are in order.

Factors influencing the Rate of Growth

110. (a) Favourable Factors: Branch

extension is the most important factor; new services and qualified personnel are contributing factors.

111. (b) Unfavourable Factors: Restrictions

imposed on savings banks as compared with some of their competitors, especially tax exempt institutions, are the unfavourable factors.

The Theory of Tax Exemption and its

112. Many institutions have departed from the

principles that are supposed to govern their operations. have invaded the banking field and are less motivated by the desire to promote thrift among their members than by a 'business purpose'. They accumulate profits and build up unexcessed surpluses. This preferential



1 treatment is unjustified since it imposes a heavier
2 burden on other taxpayers and deprives the Government
3 of much needed revenues.

4 113. In practice co-operatives and mutuals
5 are synonymous. The Quebec savings banks believe
6 that they, and the other tax-paying corporations,
7 have become the true "mutuals" since they now contribute
8 more than half of their earnings to the support of the
9 State.

10 114. This tax problem has drawn the attention
11 of many, including the President of the United States.

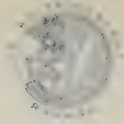
12 Complementary Relationship with other Financial
13 Institutions:

14 115. The Directors and Officers of the Quebec
15 savings banks occasionally meet their counterparts
16 from other financial institutions and discuss problems
17 of common interest. Although they have accounts with
18 the commercial banks there is reciprocal arrangement.

19 116. The Savings Banks deal in bonds through
20 securities dealers and occasionally are invited to
21 participate in new issues as members of selling groups.

22 Clearing House Membership:

23 117. The purpose of a Clearing House is to
24 facilitate the daily exchange between the member banks,
25 the settlement of resultant balances, the promotion
26 of the interests of the members and the maintenance
27 of sound banking practices. Fees and costs are assumed
28 by assessments upon the members on the basis of their
29 deliveries for the antecedent year. The Quebec
30 Savings banks are quite satisfied with their present



treatment is unjustified since it imposes a heavier burden on other taxpayers and deprives the Government of much needed revenues.

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are synonymous. The Quebec savings banks believe

that they, and the other tax-paying corporations,

have become the true "mutuals" since they now contribute more than half of their earnings to the support of the

114. This tax problem has drawn the attention

of many, including the President of the United States.

Complementary Relationship with other Financial

Institutions

115. The Directors and Officers of the Quebec

savings banks occasionally meet their counterparts

from other financial institutions and discuss problems

of common interest. Although they have accounts with

the same banks, they do not have any direct business

116. The Savings Banks deal in bonds through

securities dealers and occasionally are invited to

participate in new issues as members of selling groups.

General remarks on the situation

117. The situation of a financial institution

facilitate the daily exchange between the member banks.

the settlement of resultant balances, the promotion

of the interests of the members and the maintenance

of sound banking practices. Fees and costs are assumed

by assessments upon the members on the basis of their

deliveries for the antecedent year. The Quebec

Savings banks are quite satisfied with their present



1 Clearing arrangements.

2 Relationship with Bank of Canada and Minister
3 of Finance:

4 118. Contacts with the Bank of Canada are
5 limited. The savings banks deal directly with the
6 Bank of Canada in new Government of Canada issues,
7 but routine transactions are mostly done through the
8 Bank's agents in Montreal and Quebec. Statutory
9 reports and statements are submitted to the Minister
10 of Finance and the Bank of Canada.

11 Need for Better Understanding of Bank of
12 Canada Policy:

13 119. The prestige of the Bank of Canada might
14 be enhanced if the public had a greater understanding
15 of the Bank's policies. The Bank could help to
16 enlighten the public on monetary matters and this might
17 develop more interest and understanding of its functions
18 and policy.



Clearing arrangements.

118. Contacts with the Bank of Canada are limited. The savings banks deal directly with the Bank of Canada in new Government of Canada issues, but routine transactions are mostly done through the Bank's agents in Montreal and Quebec. Statutory reports and statements are submitted to the Minister of Finance and the Bank of Canada.

Need for Better Understanding of Bank of

Canada Policy:

119. The prestige of the Bank of Canada might be enhanced if the public had a greater understanding of the Bank's policies. The Bank could help to enlighten the public on monetary matters and this might develop more interest and understanding of its functions.



SECTION - V - REVENUES AND EXPENDITURES - PERSONNEL

Sources of Revenues:

120. Schedules VIII and VIII-A give a breakdown in percentage of sources of revenues, administration costs and interest paid to depositors for the last four years. Changes in revenues reflect the investment policies followed by each savings bank and the trend of business.

Interest and Administration Costs:

121. The decrease in interest paid to depositors reflects the increase in non-interest bearing chequing accounts. Other changes in expenses result from the expansion of business.

Policies and Practices relating to Reserves:

122. The Quebec savings banks follow the rules issued by the Minister of Finance in respect to policies and practices relating to valuation reserves, and reserves against bad and doubtful debts.

Selection, Training and Promotion of Personnel:

123. Selection is done mostly, but not exclusively, amongst young high school graduates. Interviews and aptitude tests are used. Training is given by monitors and through special courses.

124. Promotions are given according to efficiency reports and seniority.



120. Schedules VII and VIII-A give

a breakdown in percentage of sources of revenues, administration costs and interest paid to depositors for the last four years. Changes in revenues reflect the investment policies followed by each savings bank and the trend of business.

Interest and Administration Costs:

121. The decrease in interest paid to

depositors reflects the increase in non-interest bearing checking accounts. Other changes in expenses result from the expansion of business.

Policies and Practices relating to Reserves:

122. The Quebec savings banks follow the rules issued by the Minister of Finance in respect to policies and practices relating to valuation reserves, and reserves against bad and doubtful debts.

123. Selection is done mostly, but not

exclusively, amongst young high school graduates. Interviews and aptitude tests are used. Training is given by monitors and through special courses.

124. Promotions are given according to

efficiency reports and seniority.



SECTION - VI - VIEWS ON THE CAPITAL MARKET

Workings of the Securities Market:

125. The Quebec savings banks do not underwrite bond issues although they are often invited to participate as members of selling groups. Their operations in this field being limited, they prefer to leave to others the making of suggestions on the subject.

Marketing and Trading of Mortgages:

126. Flexible arrangements have yet to be created for the trading of mortgages. Before a Mortgage Bank is established, many problems would have to be ironed out such as removal of inequalities, uniformity of provincial laws and ways to provide property title guarantee.

Response of Capital Market to Monetary and Financial Policy:

127. The Quebec savings banks endorse Mr. Eric W. Kierans' views concerning the limited effectiveness of interest rates in stemming excessive spending and investment.

128. As regards mortgage loans, the savings banks believe that the direct application of controls to the term of credit is more effective, and is liable to bring quicker results, than the control through ratios of specified assets to liabilities of financial institutions.

Gaps in the Canadian Capital Market:

129. Although the lending powers of the Industrial Development Bank have been enlarged, many



SECTION - VI - VIEWS ON THE CAPITAL MARKET

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Response of Capital Market to Monetary

and Financial Policy:

127. The Quebec savings banks endorse Mr. Eric W. Kierans' views concerning the limited effectiveness of interest rates in stemming excessive spending and

128. As regards mortgage loans, the savings banks believe that the direct application of controls to the term of credit is more effective, and its liable to bring quicker results, than the control through ratios of specified assets to liabilities of financial

129. Although the lending powers of the

Industrial Development Bank have been enlarged, many



1 small enterprises find it difficult to get capital
2 for current operations and growth.

3 130. The Quebec savings banks do not
4 participate in financing of this sort which is outside
5 their field of operation. Since their main purpose
6 is to protect the money entrusted to them by their
7 depositors they do not request an extension of powers
8 in this respect. Even if it became desirable, their
9 participation should be limited.

10 CONCLUSIONS

11 131. The Quebec savings banks are proud
12 of their history and for having enjoyed the confidence
13 of many generations of depositors. They are convinced
14 that they have played and still play an important
15 role in the economy by providing a complete financial
16 service to the individual and the family.

17 132. They trust that the Royal Commission
18 on Banking and Finance will concur in their views
19 and recommendations, so that they be permitted to
20 still better serve the thrifty who deal with them with
21 an absolute feeling of security.

for current operations and growth.

130. The Quebec savings banks do not

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is to protect the money entrusted to them by their

depositors they do not request an extension of powers

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service to the individual and the family.

132. They trust that the Royal Commission

on Banking and Finance will concur in their views

and recommendations, so that they be permitted to

still better serve the public who deal with them with

an absolute feeling of security.



Presented by the Quebec Savings Banks
to

Royal Commission on Banking and Finance

Table of Contents

	<u>Page</u>	<u>Paragraphs</u>
<u>PREAMBLE</u>		
Purpose of Brief	A1593	1
Monetary Policy	A1593	2-3
Thrift and its Role in the Economy	A1593	4
Thrift and its Enemies	A1593	5
Capital Market	A1593	6
Financial System	A1593	7
<u>SECTION</u>		
I. <u>GROWTH AND STRUCTURE OF THE QUEBEC SAVINGS BANKS</u>		
Origin of the Quebec Savings Banks	A1594	8-13
Change from Mutuals to Stock Corporations	A1594	14
Capitalization	A1595	15-16
Assistant Receiver General for the District of Montreal	A1595	17-20
Branches and Personnel	A1595	21-23
Legislation Governing Operations of the Quebec Savings Banks	A1595	24-28
General Powers	A1596	29-30
Statutory Limitation of Branch Locations	A1596	31
General Statement and Statistical Summary	A1596	32
Cash and Additional Reserves	A1596	33-34
Unrestricted Investments	A1597	35
Securities in which Investment is restricted	A1597	36-39
Mortgage Loans	A1598	40-41
Exceptions	A1598	42
Secured Loans and Advances	A1598	43-44
Unsecured Loans	A1598	45-48



Royal Commission on Banking and Finance

Table of Contents

Principles of Banking	1
Monetary Policy	2
Trade and the Role of the Economy	3
Trade and the Bankers	4
Central Bank	5
Financial Institutions	6
Origin of the Quebec Savings Banks	7
Change from Savings to Bank	8
Capitalization	9
Assistant Governor General for the District of Montreal	10
Branches and Personnel	11
Legislation Governing Operations of the Quebec Savings Banks	12
General Powers	13
Statutory Distribution of Branch Locations	14
General Services and Statistical	15
Cash and Additional Reserves	16
Securities in which Investment is	17
Conclusion	18
Appendix	19
Index	20

Table of Contents

	<u>Page</u>	<u>Paragraphs</u>
Bank Premises	A1598	49
Interests and Charges	A1599	50
Reports	A1599	51
Analysis of Banking Functions	A1599	52-55
Controls and their Purpose	A1599	56-62
The Functions of Savings Banks	A1600	63-64
Legislation Governing Savings Banks Operations	A1600	65-66
Reserve Requirements	A1600	67-69
Possible additional Services	A1600	70
Savings Bank Life Insurance	14	71
Mutual Fund	14	72
Real Estate Investment Trust	14	73
Fiduciary Service	14	74
<u>PROPOSED AMENDMENTS TO THE QUEBEC SAVINGS BANKS ACT</u>		
Section 12 - Qualification of Directors	A1601	75-77
Section 24 - Authorized Capital Stock	A1601	78-79
Section 26 - (c) Price Limitation on New Shares	15	80-83
Section 59 - Bonds of Public Utility Companies	A1601	84-85
Section 63 - (g) Loans and Advances without Security	A1602	86-88
Section 64 - Mortgage Loans	A1602	89-96
Policy in regard to Opening of New Branches	A1603	97-99
Statutory Limitation of Branch Location	A1603	100-101
Internal Organization of the Quebec Savings Banks	A1603	102
Executive Officers of The Montreal City & District Savings Bank	A1604	103-109
Internal Control, Inspection and Safeguards	A1604	110-111



Bank Premiums	100-101
Interest and Charge	100-102
Analysis of Banking Functions	100-103
Controls and Audit Systems	100-104
The Functions of Savings Banks	100-105
Registration Governing Savings Banks Operations	100-106
Possible Additional Services	100-107
Savings Bank Life Insurance	100-108
Mutual Funds	100-109
Real Estate Investment Trusts	100-110
PROPOSED AMENDMENTS TO THE Savings Bank Act	100-111
Section 16 - Qualification of	100-112
Section 24 - Authorized Capital	100-113
Section 26 - (a) Third Party on New Shares	100-114
Section 28 - Bonds or Public Securities	100-115
Section 29 - (a) Loans and Advances without Security	100-116
Section 34 - Mortgage Loans	100-117
Policy to Regard to Operation of	100-118
Statutory Definition of a Bank	100-119
Internal Organization of the	100-120
Principal Officers of the National	100-121
City & Savings Banks Act	100-122
Internal Control, Inspection and Supervision	100-123



		<u>Page</u>	<u>Paragraphs</u>
1			
2	Budget and Reports to the Board of Directors	A1604	112
3	Executive Officers of The Quebec Savings Bank	A1604	113-116
4	Shareholders' Audit	A1605	117
5	Government Inspection	A1605	118
6	<u>SECTION</u>		
7	II <u>ASSET MANAGEMENT</u>		
8	Policies and Practices relative to Cash and Liquid Reserves	A1606	119-129
9	Investment Policies	A1607	130-132
10	Classes of Assets and their proportion to Total Assets	27	133
11	Scope of Lending Powers	A1607	134-135
12	Mortgage Loans	A1607	136-140
13	Personal Loans	A1608	141-143
14	Investments in Securities	A1608	144-147
15	<u>POLICIES & PRACTICES WITH RESPECT TO MORTGAGES AND LOANS</u>		
16	Conventional Mortgages	A1608	148-151
17	Policies and Practices with respect to Mortgage Loans made under the "National Housing Act"	A1609	152-154
18	Policies and Practices in regards to Loans against Collateral Security	A1609	155-158
19			
20	Policies and Practices concerning Personal Loans	A1609	159-161
21	Policies and Practices concerning Loans to Religious Corporations, Syndics & Fabriques de Paroisse	A1610	162-165
22			
23	Credit Shortage	A1610	166
24	Lending Rates	A1610	167-168
25	<u>SECTION</u>		
26	III <u>LIABILITIES</u>		
27	Classes of Liabilities	33	169
28			
29	Deposits by the Government of Canada	A1611	170
30			

Board of Directors
Budget and Reports to the

Polio and measles relative
to lead and heavy metals

Investments in Securities

Table of Contents

	<u>Page</u>	<u>Paragraphs</u>
Deposits by Provincial Governments	A1611	171
Deposits by the Public	A1611	172
Savings Accounts	A1611	173-175
Personal Chequing Accounts	A1611	176
Christmas and Holiday Savings Accounts	A1611	177
Certificates of Deposits	A1611	178
Poor Funds	A1612	179-180
Rate of Withdrawal of Deposits	35	181
Interest on Deposits	A1612	182-186
Deposit Insurance	A1612	187-188

SECTION

IV

RELATIONS WITH OTHER FINANCIAL
INSTITUTIONS

Debt of Financial Institutions held by the Quebec Savings Banks	A1613	189
Competition between the Quebec Savings Banks	A1613	190
Services offered by the Quebec Savings Banks	A1613	191
Competition between the Quebec Savings Banks and other Financial Institutions	A1613	
a) Commercial Banks	A1613	192-196
b) Caisses Populaires	A1613	197-203
c) Credit Unions or Caisses d'Economie	A1614	204
d) Trust Companies	A1614	205-206
e) Finance Companies	A1614	207-208
Factors Influencing the Rate of Growth of the Quebec Savings Banks	A1614	
a) Favorable Factors	A1614	209-211
b) Unfavorable Factors	A1614	212-213
The Inequity of Tax Exemption accorded to certain Institutions	A1614	214-227
Comparative Interest Rates paid and charged	44	228



Table of Contents

141	Deposits by Provincial Governments	1
142	Deposits by the Public	2
173-175	Savings Accounts	3
176	Personal Checking Accounts	4
177	Christmas and Holiday Savings	5
178	Contributions to Savings	6
179-180	Rate of Withdrawal of Deposits	7
181	Interest on Deposits	8
182-186	Interest on Deposits	9
187-188	Interest on Deposits	10
<hr/>		
189	Rate of Financial Institutions	11
190	Comparison between the	12
191	Services offered by the	13
<hr/>		
192-196	Comparison between the	14
197-207	Savings Banks and other Financial	15
<hr/>		
208-209	a) Commercial Banks	16
210-211	b) Savings Banks	17
212	c) Credit Unions or	18
213-214	d) Trust Companies	19
215-216	e) Finance Companies	20
<hr/>		
217-218	Factors influencing the Rate of	21
219-221	Interest on the Government Bonds	22
222-223	a) Municipal Factors	23
224-225	b) International Factors	24
<hr/>		
226-227	The theory of the Interest	25
228-229	accorded to certain Institutions	26
<hr/>		
230	Commercial Interest Rates paid	27
231	and securities	28

Table of Contents

	<u>Page</u>	<u>Paragraphs</u>
Complementary Relationship with other Financial Institutions	A1615	229-230
Clearing House Membership	A1615	231-235
Relationship with Bank of Canada and Minister of Finance	A1616	236
Need for better Understanding of Bank of Canada Policy	A1616	237

SECTION

V

REVENUES AND EXPENDITURES - PERSONNEL

Sources of Revenues	A1617	238
Interest and Administration Costs	A1617	239-241
Policies and Practices relating to Reserves	A1617	242-245
Selection, Training and Promotion of Personnel	A1617	
a) Personnel Recruiting and Selection	48	246-247
b) Aptitude Tests	48	248
c) Personnel Training	48	249-251
d) Promotions	49	252

SECTION

VI

VIEWS ON THE CAPITAL MARKET

Workings of the Securities Markets	A1618	253-254
Marketing and Trading of Mortgages	A1618	255-259
Response of Capital Market to Monetary and Financial Policy	A1618	260-262
Gaps in the Canadian Capital Market	A1618	263-266
CONCLUSIONS	A1619	267-269



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

SECTION

Clearing House Membership
Relationship with Bank of Canada
and Transfer of Funds
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SECTION

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CONCLUSIONS



B R I E F

Presented by the Quebec Savings Banks

to

Royal Commission on Banking and Finance

Table of Schedules

SCHEDULE - I - Synopsis of Legislation affecting the Quebec Savings Banks

SCHEDULE - II - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

General Statement as at December 31, 1961.

SCHEDULE - II-A - THE QUEBEC SAVINGS BANK

General Statement as at December 31, 1961.

SCHEDULE - III - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

Statistical Summary

SCHEDULE - III-A - THE QUEBEC SAVINGS BANK

Statistical Summary

SCHEDULE - IV - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

Classes of Assets and their Proportion to Total Assets as at December 31, 1961.

SCHEDULE - IV-A - THE QUEBEC SAVINGS BANK

Classes of Assets and their Proportion to Total Assets as at November 30, 1961.

SCHEDULE - V - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

Maturities of Bond Investments as at December 31, 1961.

SCHEDULE - V-A - THE QUEBEC SAVINGS BANK

Maturities of Bond Investments as at December 31, 1961.

SCHEDULE - VI - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

Data on the Rate of Withdrawal of Deposits

SCHEDULE - VI-A - THE QUEBEC SAVINGS BANK

Data on the Rate of Withdrawal of Deposits

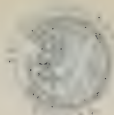
SCHEDULE - VII - Comparative Interest Rates paid and charged

SCHEDULE - VIII - THE MONTREAL CITY AND DISTRICT SAVINGS BANK

Sources of Income and Administration Costs

SCHEDULE - VIII-A - THE QUEBEC SAVINGS BANK

Sources of Income and Administration Costs.



Presented by the Quebec Savings Banks

Royal Commission on Banking and Finance

Table of Contents

Synopsis of legislation affecting the Quebec Savings Banks	II -
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	III -
General Statement as at December 31, 1961.	
THE QUEBEC SAVINGS BANK	III-A -
General Statement as at December 31, 1961.	
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	III -
Statistical Summary	
THE QUEBEC SAVINGS BANK	III-A -
Statistical Summary	
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	IV -
Classes of Assets and their Proportion to Total Assets as at December 31, 1961.	
THE QUEBEC SAVINGS BANK	IV-A -
Classes of Assets and their Proportion to Total Assets as at November 30, 1961.	
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	V -
Maturities of Bond Investments as at December 31, 1961.	
THE QUEBEC SAVINGS BANK	V-A -
Maturities of Bond Investments as at December 31, 1961.	
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	VI -
Data on the Rate of Withdrawal of Deposits	
THE QUEBEC SAVINGS BANK	VI-A -
Data on the Rate of Withdrawal of Deposits	
Comparative Interest Rates paid and charged	VII -
THE MONTREAL CITY AND DISTRICT SAVINGS BANK	VIII -
Control of Income and Administration Costs	
THE QUEBEC SAVINGS BANK	VIII-A -
Control of Income and Administration Costs	



BRIEF

Purpose of Brief:

1. The purpose of this brief is to present a complete and detailed picture of the Quebec Savings Banks. Particular attention has been given to the list of topics suggested by the Commission for discussion, in order to include all the information that could be of value to the Commissioners, but care has been taken to avoid unnecessary details that might confuse the issues discussed and lengthen the brief without adding to its usefulness.

Monetary Policy:

2. The two Quebec Savings Banks do not believe that a complete discussion on all the aspects of monetary policy should be included in the Brief they respectfully submit to the Royal Commission on Banking and Finance. Their reason for so thinking is that the Commission, through its research staff and from other institutions more closely influenced by the government monetary policies, will receive material providing complete data on the subject. Therefore the Savings Banks are of the opinion they should limit themselves to general comments which they consider of particular importance.

3. The Savings Banks believe that, generally speaking, monetary policy as presently applied is satisfactory. But they wish to underline the fact that, although monetary policy must be flexible and changes made when circumstances warrant, it cannot be counted upon to settle all economic problems.

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1 A close coordination of monetary and fiscal policies
2 is also necessary. If well handled, monetary policy
3 can be a wonderful instrument. It can greatly help
4 to insure stability of the buying power of the currency
5 and, so, reduce the dangers of inflation with its dire
6 consequences.

7 Thrift and its Role in the Economy:

8 4. It is not necessary to repeat what has
9 been said so often about the importance of thrift,
10 its role in the development of the economy of a nation,
11 how and why it should be encouraged. What is important,
12 is that these things be remembered and more efforts spent
13 to encourage those who save.

14 Thrift and its Enemies:

15 5. Since the Savings Banks are dedicated
16 to the promotion of thrift, they are fully aware that
17 inflation is the worst destroyer of thrift. It
18 discourages the savers and robs them of the fruit of
19 their savings. It creates chaos by chasing savings away
20 from fixed income investments into stocks and real
21 estate for which an abnormal demand is thus created,
22 resulting in artificial and unwarranted increases in
23 prices. High taxes, such as exist at present, also
24 discourage thrift and it is surprising to note that
25 whereas, on the one hand, so much lip service is paid
26 to the virtues of thrift and to its necessity for the
27 development of the country, on the other hand, the
28 thrifty are severely penalized.

29 Capital Market:

30 6. The main role of a properly functioning



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Capital Market:

6. The main role of a properly functioning



capital market should be to insure the financing, at reasonable conditions, of the state, the provinces, municipalities, public corporations and all other legitimate private enterprises, especially those that provide permanent jobs, and those that produce food and manufactured goods usually needed by Canadian consumers. The allocation of resources should be done only when necessary and only to the extent of insuring adequate financing where and when it is needed.

Financial System:

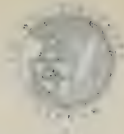
7. If all financial matters above discussed are well coordinated and objectives attained, this should result in a satisfactory rate of development of all sectors of the country's economy, insure stability of prices, provide, from within the country, most of the financial resources necessary for the establishment and expansion of enterprises, and assure continued prosperity and a high standard of living for most citizens. Only then could the financial system be judged to function adequately.

SECTION - 1 - GROWTH AND STRUCTURE OF THE QUEBEC SAVINGS BANKS

Origin of the Quebec Savings Banks:

8. There had been a Savings Bank in Montreal, prior to the establishment of The Montreal City and District Savings Bank, but it had fallen on evil days and in 1846 it was in the throes of liquidation and investigation by a Royal Commission.

9. Because of this and other failures, people did not have much confidence in banks. The commercial



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1 banks themselves were not in the least concerned about
2 going after the savings of the common people.

3 10. The Roman Catholic Archbishop of Montreal,
4 His Grace Ignace Bourget, was aware of these problems.
5 On the advice of public spirited businessmen he used
6 to consult on these matters, he took the initiative
7 of calling upon a group of 75 outstanding citizens for
8 their help in view of establishing an institution that
9 would promote thrift and take special care of the
10 savings of the people. They responded to his appeal
11 and The Montreal City and District Savings Bank
12 started its operations on May 26, 1846.

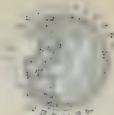
13 11. The Caisse d'Economie de Notre-Dame
14 de Quebec, which changed its corporate name to The Quebec
15 Savings Bank on August 2, 1944, was established two
16 years after The Montreal City and District Savings
17 Bank and started its operations on May 21, 1848.

18 12. The two Quebec Savings Banks were, at
19 first and until 1871, mutual and philanthropic
20 institutions and their founders were working for an
21 ideal: the common welfare.

22 13. The Savings Banks were operating under
23 the general "Savings Banks Act of 1841" enacted by
24 what was then known as the Province of Canada.

25 Change from Mutuals to Stock Corporations:

26 14. With the establishment of Confederation
27 in Canada, Banks and banking came under the exclusive
28 purview of the Dominion Government and regulations
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30 Quebec Savings Banks were granted Royal Charters and



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1 ceased operating as mutuals.

2 Capitalization:

3 15. The capitalization of The Montreal City
4 and District Savings Bank was set at two million dollars
5 with five thousand shares of four hundred dollars each.
6 That of La Caisse d'Economie de Notre-Dame de Quebec
7 was set at one million dollars with two thousand
8 five hundred shares.

9 16. In 1911, the four hundred dollar shares
10 issued by the Quebec Savings Banks were divided four
11 for one and the par value reduced to one hundred
12 dollars. In 1944, in common with all Canadian banks,
13 the shares of the Quebec Savings Banks were split
14 ten for one and the par value reduced to ten dollars.

15 Assistant Receiver General for the District
16 of Montreal:

17 17. By its sound administration and its
18 devotion to the cause of thrift, The Montreal City
19 and District Savings Bank soon gained the confidence
20 of the public and the Government. Proof of this confidence
21 was given in 1871, when it was appointed Assistant
22 Receiver General for the District of Montreal by the
23 Dominion Government. The important duties of this office
24 were to control the issue and redemption of Dominion
25 notes and the exchange of gold, silver, bullion and
26 coins on behalf of the Receiver General of Canada.

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19. Members of the staff of the Assistant Receiver General for the District of Montreal, all of whom had been recruited from the ranks of The Montreal City and District Savings Bank, were invited to join the Montreal Office of the Bank of Canada, in 1935, and all accepted.

20. Mr. C. Desmarais, who served for many years as Agent in Montreal for the Bank of Canada, and the present incumbent, Mr. A. Huberdeau, both started their banking career with The Montreal City and District Savings Bank.

Branches and Personnel:

21. At this moment, The Montreal City and District Savings Bank has 55 branch offices, all on the Island of Montreal except one, and has a staff of 800 full time and 126 part-time employees.

22. All buildings where branches are situated are owned by the Bank and are free from any incumbrances. All branches have been built to satisfy the particular needs of its clientele and are located as near as possible to the residential districts.

23. The Quebec Savings Bank has 19 branches, all in the City of Quebec and suburbs and its staff stands at 139.

Legislation Governing Operations of the Quebec Savings Banks:

24. A list of all the acts and amendments to the laws governing the operations of the Quebec Savings Banks, since their establishment, appears in Schedule I at the end of this brief.



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25. From 1871 to 1948, there were no major changes in the laws except to establish more adequately the extent of the powers and the limitations governing the operations of the Quebec Savings Banks.

26. In that year, the Savings Banks, at their request, were authorized to make mortgage loans and personal loans. New houses were in very high demand in the early fifties and credit for their construction was difficult to obtain. Under the National Housing Act, the commercial banks were invited to help relieve this credit stringency. But, now that the situation is back to normal, we feel they should withdraw from that field of operation.

27. The 1944 revision of the Quebec Savings Banks Act defined the areas, as detailed in paragraph 31, where each of the two Savings Banks could operate.

28. In essence, the present Quebec Savings Banks Act parallels closely the Canadian Bank Act which regulates the Commercial Banks.

General Powers:

29. The Act deals with the matters usually found in legislation of this kind, such as the powers of the shareholders; the qualifications, election, powers and responsibilities of the directors; capital stock, transfer of shares, issue of additional shares; dividends, shareholders' audit, destruction of old records, interest and charges, annual meeting and statements, transmission of deposits, inspection by the Inspector General of Banks and the like.

30. Many of the subjects covered are only of



25. From 1871 to 1948, there were no major changes in the laws except to establish more adequately the extent of the powers and the limitations governing the operations of the Quebec Savings Banks.

26. In that year, the Savings Banks, at

their request, were authorized to make mortgage loans and personal loans. New houses were in very high

demand in the early fifties and credit for their construction was difficult to obtain. Under the National Housing Act,

the commercial banks were invited to help relieve

this credit stringency. But, now that the situation is

back to normal, we feel they should withdraw from that

field of operation.

27. The 1944 revision of the Quebec Savings

Banks Act defined the areas, as detailed in paragraph

31, where each of the two Savings Banks could operate.

28. In essence, the present Quebec Savings

Banks Act parallels closely the Canadian Bank Act

with respect to the powers of the banks.

General Powers:

29. The Act deals with the matters usually

found in legislation of this kind, such as the powers

of the shareholders; the qualifications, election,

powers and responsibilities of the directors;

capital stock, transfer of shares, issue of additional

shares; dividends, shareholders' audit, dissolution of

old records, interest and charges, annual meeting

and statements, transmission of deposits, inspection

by the Inspector General of Banks and the like.

30. Many of the subjects covered are only of



secondary interest and need not be commented upon, but there are other subjects more deserving of attention because they give an accurate picture of the conditions under which the Quebec Savings Banks operate.

Statutory Limitation of Branch Locations:

31. The Quebec Savings Banks Act defines clearly what the words "District of Montreal" mean for the purposes of the Act and we find that, in fact, this term describes an area bounded to the West by the Province of Ontario; to the South, by the U.S. border; to the East, by a line skirting a certain number of judicial districts and extending to a distance of about 80 miles from the City of Montreal to the North, to about 100 miles or so. What is defined as the "District of Quebec" covers the rest of the Province of Quebec.

General Statement and Statistical Summary:

32. Schedules II, II-A, III and III-A give the General Statement for the year ending December 31, 1961, and a Statistical Summary for the period 1905 to 1961 inclusively.

Cash and Additional Reserves:

33. The first Reserve, -- also known as the Cash Reserve -- must, at all times, be equal to at least five per cent of the deposit liabilities of the Bank and must be in the form of notes of the Bank of Canada or of deposits with the Bank of Canada or with chartered banks.

34. An additional, or secondary Reserve, must also be maintained at all times and must equal at least 15 per cent of the bank's deposit liabilities.



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34. An additional, or secondary Reserve, must also be maintained at all times and must equal at least 15 per cent of the bank's deposit liabilities.



1 This reserve must be in the form of:

- 2 (a) notes of the Bank of Canada, deposits
3 with the Bank of Canada or with chartered
4 banks, -- that is the same sort of assets
5 prescribed for the Cash Reserve, -- or,
6 (b) securities of or guaranteed by the
7 Government of Canada or of a province. (The excess
8 in item one of Schedules II and II-A, over the
9 prescribed 5 per cent Cash Reserve, plus that
10 part of item two which can be properly counted
11 as being part of the secondary reserve, added
12 to items 3 and 4 constitute acceptable
13 components of the Secondary 15 per cent
14 Reserve).

15 Unrestricted Investments:

16 35. The Savings Banks, after complying with
17 the rules mentioned above, are authorized to invest freely
18 in a fairly large number of types of securities, the most
19 important being: the securities of or guaranteed by the
20 Government of Canada or the provinces thereof, the United
21 Kingdom and its colonies, the Government of any country
22 of the British Commonwealth, the Government of the United
23 States or of any of the States, Canadian Municipal
24 corporations, school corporations in Canada whose revenues
25 are derived from taxes, securities of ecclesiastical or
26 religious corporations incorporated in Canada, of
27 Fabriques de Paroisse or Syndics issued under the Parish
28 and Fabrique Act of the Province of Quebec, hospital
29 or sanatorium corporations in the Province of Quebec,
30 and Canadian Railway equipment securities meeting



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the rules mentioned above, are authorized to invest freely

in a fairly large number of types of securities, the most

important being: the securities of or guaranteed by the

Government of Canada or the provinces thereof, the United

Kingdom and its colonies, the Government of any country

of the British Commonwealth, the Government of the United

States or of any of the States, Canadian Municipal

corporations, school corporations in Canada whose revenue

are derived from taxes, securities of ecclesiastical or

religious corporations incorporated in Canada, or

Fabriques de Paroisses or Syndics issued under the Parish

and Fabrique Act of the Province of Quebec, hospital

or sanatorium corporations in the Province of Quebec,

and Canadian Railway equipment securities meeting



1 certain requirements.

2 Securities in which Investment is Restricted:

3 36. In this group are included: the bonds,
4 debentures and first preferred shares of any corporation,
5 incorporated in Canada, whose common shares are listed on
6 a recognized stock exchange, provided that it has, in
7 each of the last five previous years, paid in cash,
8 on all its outstanding capital stock, a dividend out
9 of income earned in the year of payment or interest
10 in full upon all of its outstanding securities, and
11 that its unimpaired paid-up capital and earned surplus
12 exceed five hundred thousand dollars.

13 37. Also in this group are the shares of any
14 Canadian Commercial bank and other securities approved
15 by the Treasury Board.

16 38. The total book value of above investments
17 must not exceed 15 per cent of the Bank's deposit
18 liabilities.

19 39. Since 1957, savings banks are also allowed
20 to invest in the securities and shares of Canadian
21 corporations, not in default of principal or interest,
22 but the aggregate value of all investments of this
23 kind must not exceed 50 per cent of the paid-up Capital
24 and Retained Account of the Bank.

25 Mortgage Loans:

26 40. As mentioned previously, it is only in
27 1948 that the Quebec Savings Banks were given the right
28 to make first mortgage loans. At first, the maximum
29 allowed was 5 per cent of deposit liabilities. In 1952,
30 the limit was raised to 10 per cent. In 1954, when



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39. Since 1954, savings banks are also allowed to invest in the securities and shares of Canadian corporations, not in default of principal or interest, but the aggregate value of all investments of this kind must not exceed 50 per cent of the paid-up Capital and Reserves of the Bank.

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1 the Act was revised, it was changed to 20 per cent.
2 Finally, in 1957, the limit was further upped to 40
3 per cent of deposit liabilities.

4 41. Savings Banks may lend on mortgages
5 covered by the National Housing Act and on conventional
6 first mortgages. The following restrictions apply to
7 loans in the last category:

8 (a) each loan must not exceed the lesser of
9 \$100,000 or 60 per cent of the Bank's
10 evaluation of the property;

11 (b) there must be a building on the property
12 or one in the process of being erected;

13 (c) at least one half of the floor space
14 of the mortgaged building must be used for
15 residential purposes.

16 Exceptions:

17 42. There are certain exceptions to these
18 rules. For example, when a property bought by the Bank
19 for its own use is sold and there is a balance of
20 payment due, or if a property is taken by the Bank because
21 of the non-payment of a loan and this property is later
22 sold and a balance of sale is left outstanding, none of
23 the above restrictions are obligatory.

24 Secured Loans and Advances:

25 43. Savings Banks are precluded by law from
26 lending money or making advances on warehouse receipts,
27 goods and merchandises or from carrying on any trade
28 or business. Therefore, they cannot discount commercial
29 paper.

30 44. The Savings Banks may loan money, provided



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44. The Savings Banks may loan money, provided:



1 they take as security for the repayment of such
2 loans:

3 (a) any of the securities in which the
4 bank itself may invest freely;

5 (b) the shares of commercial banks or the
6 securities of corporations in the restricted
7 groups, if, when the loan is made, the market
8 value of these securities is not less than one
9 hundred and twenty per cent of the amount of the
10 loan;

11 (c) life insurance policies, when their
12 cash surrender value is not less than the
13 amount of the loan.

14 Unsecured Loans:

15 45. Savings Banks may lend money and make
16 advances without security to the Government of Canada
17 or to any provinces thereof, to Canadian municipalities,
18 school corporations whose revenues are derived from
19 taxes levied by them or on their behalf, Canadian
20 ecclesiastical or religious corporations, Fabriques
21 de Paroisse or Syndics subject to the Parish and
22 Fabrique Act of the Province of Quebec, corporations
23 operating hospitals or sanatoria in the Province of
24 Quebec, and, under certain conditions, to other
25 Canadian corporations.

26 46. They may also lend money and make
27 advances without security to individuals in amounts
28 not exceeding \$5,000 to each person.

29 47. When personal loans were first
30 authorized in 1948, the limit was fixed at \$1,000. It



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authorized in 1946, the limit was fixed at \$1,000. It



1 was raised to \$2,000 in 1952 and to the present level
2 of \$5,000 in 1957.

3 48. The total amount loaned under that
4 section must not exceed five per cent of the Bank's
5 deposit liabilities.

6 Bank Premises:

7 49. Savings Banks may own all the real estate
8 necessary for their present or future operations. They
9 can sell properties and acquire other properties in
10 their stead for the same purpose. But, whenever a
11 property ceases to be required for the use of the Bank,
12 that property must be sold within a period of seven
13 years.

14 Interests and Charges:

15 50. Savings Banks, in common with commercial
16 banks, are not allowed to charge a rate of interest or
17 discount higher than 6 per cent, on loans. Rates for
18 collection charges are also specified. However, the
19 Quebec Savings Banks are not restricted to 6 per cent
20 in the rates charges on conventional mortgages and on
21 mortgage loans made under the National Housing Act.

22 Reports:

23 51. Reports, in the prescribed form, must be
24 sent to the government, monthly, annually and on
25 demand.

26 Analysis of Banking Functions:

27 52. All definitions of what is a bank and
28 what constitutes its functions have something in common.
29 A simple definition would be that a bank is an institution
30 which deals in money and credit, where money may be



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Analysis of Banking Functions:

52. All definitions of what is a bank and what constitutes its functions have something in common. A simple definition would be that a bank is an institution which deals in money and credit, where money may be



1 deposited for safekeeping. A more elaborate definition
2 of banking would be that it is a branch of business
3 the principal operations of which are to receive, keep
4 and pay, borrow and loan capital in the form of money.

5 53. Nowadays very few banks in the world,
6 are specialized. Most of them service savings deposits
7 and current accounts, discount commercial paper, make loans
8 with or without collateral security, invest in bonds
9 and subscribe to new issues, and deal in securities.

10 54. Banks may be classified according to their
11 main objectives such as central banks, commercial
12 banks, savings banks, etc.

13 55. In the past, perhaps because there were
14 not too many firms or individuals in the banking business,
15 the functions of banking seemed clear enough in the minds of
16 most people. It is only since the creation and growth
17 of new types of financial institutions and their
18 invasion of the banking field that the question has
19 been raised. These institutions, of course, have done
20 all they could to add to the confusion by pretending
21 that, since they did not call themselves "banks", any
22 operation they cared to do could not accordingly be
23 classified as banking operation. Knowing very well
24 how banks and banking are closely regulated and how
25 it would hamper their movements, limit their operations
26 and their profits, it has been in their interest to act
27 as they did. Such superficial reasoning does not change
28 the facts and there is no doubt whatsoever that these
29 institutions are more or less legally carrying on
30 banking operations.



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1 Controls and their Purpose:

2 56. All well organized countries exercise
3 close control over banking and properly so. They are
4 anxious to avoid a repetition of the failures of the
5 past, to prevent the losses and hardships that failures
6 may cause to large numbers of people, especially the
7 small savers. For many of the latter a loss of this
8 kind is disastrous. There is no doubt that, at first,
9 this was the main reason for such close regulation.
10 Today, because of increased knowledge in the field
11 of economics, other reasons, such as better understanding
12 of the role played by the banks in the economy of the
13 nation, have reinforced that concept. But the first
14 reason, i.e. the protection of the savings of the
15 individuals, is still as valid as ever.

16 57. If the purpose of the restrictions imposed
17 on the Savings Banks is to protect the savings of the
18 depositing public, then those restrictions should also
19 apply to all institutions who receive deposits from the
20 public.

21 58. Contrariwise, if restrictions are not
22 necessary or have ceased to be so, then there is
23 discrimination against the Savings Banks.

24 59. Some interested people may argue that
25 restrictions aim more to protect the word "BANK" than
26 the function itself. Still it is doubtful how anyone
27 can contend seriously that the real purpose of any
28 legislation is to protect the meaning of words rather
29 than the functions represented by these words.

30 60. Of course, the Quebec Savings Banks do



36. All well organized countries exercise close control over banking and property so. They are anxious to avoid a repetition of the failures of the past, to prevent the losses and hardships that failures may cause to large numbers of people, especially the small savers. For many of the latter a loss of this kind is disastrous. There is no doubt that, at first, this was the main reason for such close regulation. Today, because of increased knowledge in the field of economics, other reasons, such as better understanding of the role played by the banks in the economy of the country, have become more important.

37. If the purpose of the restrictions imposed on the Savings Banks is to protect the savings of the depositing public, then those restrictions should also apply to all institutions who receive deposits from the public.

38. Furthermore, if restrictions are not necessary or have ceased to be so, then there is discrimination against the Savings Banks.

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1 not object to supervision and contro... Even if
2 there were no laws, prudent bankers would, voluntarily
3 and as a matter of course, accumulate reserves, diversify
4 their investments and limit to a safe minimum the
5 risks they take.

6 61. Their objection is to excessive restrictions
7 and to discrimination which create unfair advantages
8 favouring certain categories of their competitors who
9 have invaded the banking field with impunity and to the
10 detriment of recognized banking institutions.

11 62. Furthermore, some near banks are tax
12 exempt and that gives them a tremendous advantage over
13 tax paying corporations, but this matter will be discussed
14 at length later in this brief.

15 The Functions of Savings Banks:

16 63. The Quebec Savings banks consider that,
17 as such, they have two main objectives:

18 (a) to insure the highest degree of security
19 for the monies entrusted to them;

20 (b) to provide complete financial service
21 to the individual and the family.

22 64. Savings Banks exist in most countries
23 and are generally the object of special attention from
24 the State. It is surprising to note that, in Canada,
25 there are only two Savings Banks apart from the Post
26 Office Savings Bank and the two surviving provincial
27 savings institutions. Some reasons are evident.
28 The comparatively large amount of capital required to
29 start a savings bank is one. Another reason is the
30 facility with which other types of institutions, not



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start a savings bank is one. Another reason is the

facility with which other types of institutions, not



1 subject to the same strict controls, can be started,
2 take larger risks and accordingly realize a higher
3 margin of profit.

4 Legislation Governing Savings Banks Operations:

5 65. The Quebec Savings Banks believe that they
6 play a special role in the community. A study of the laws
7 governing savings banks in other countries shows that,
8 generally speaking, the Quebec Savings Banks Act
9 compares favourably with most of them, although many
10 of the powers granted to our own savings banks could
11 advantageously be enlarged.

12 66. Should their powers be broadened enough
13 to permit them to fulfil their proper role, the Quebec
14 Savings Banks would be satisfied and would not seek the
15 authorization to make commercial loans. This would
16 enable them to better serve their customers and to
17 keep their identity as savings banks.

18 Reserve Requirements:

19 67. The Quebec Savings Banks consider that
20 present reserve requirements are more than sufficient.
21 In support of this view, may we quote a statement made
22 by Mr. James J. Saxon, Comptroller of the Currency
23 of the United States, at a hearing before the Senate
24 Banking and Currency Committee, when he said: "Reserve
25 requirements against savings deposits are
26 economically or monetarily unjustified".

27 68. In "The Investment Outlook for 1962"
28 issued by Bankers Trust of New York City, the following
29 comment appears in the section concerning Mutual Savings
30 Banks: "The 15 per cent of total assets still invested



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1 in Government securities is a far higher figure than
2 is necessary for liquidity or operating purposes".

3 69. This opinion, which is shared by many
4 other students of banking and may be confirmed by a study
5 of the fluctuations in savings deposits, merits
6 consideration. Reserve requirements, as presently
7 stipulated in the Quebec Savings Banks Act, should
8 therefore be considered more than sufficient.

9 Possible Additional Services:

10 70. Apart from the specific changes
11 recommended by the Quebec Savings Banks in the following
12 pages, it would be advantageous that the savings banks
13 be allowed to render, to their customers, the additional
14 services described in the following paragraphs.

15 Savings Bank Life Insurance:

16 71. Savings Banks, in many of the United
17 States such as the State of New York, are allowed
18 to sell this form of insurance which is considerably
19 less expensive than that offered by insurance companies.
20 The amount on the life of any one individual is limited
21 to ten thousand dollars.

22 Mutual Fund:

23 72. The Savings Banks could be authorized
24 to establish and sell their own mutual fund over the
25 counter.

26 Real Estate Investment Trust:

27 73. Savings Banks could be authorized to
28 establish a real estate investment trust, with sales
29 to or participation by depositors who want to place
30 funds in mortgage loan investments. This trust could



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Real Estate Investment Trust:

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establish a real estate investment trust, with sales to or participation by depositors who want to place funds in mortgage loan investments. This trust could



1 easily be handled by Savings Banks' personnel already
2 engaged in mortgage work.

3 Fiduciary Service:

4 74. Finally, as true service institutions
5 for their communities, the Quebec Savings Banks need
6 the authority to handle trust accounts for their
7 depositors.

8 PROPOSED AMENDMENTS TO THE QUEBEC
9 SAVINGS BANKS ACT

10 Section 12 - Qualifications of Directors:

11 75. The market value of bank shares having
12 risen sharply in recent years, it would be financially
13 impossible, under the present statutory requirements,
14 for many candidates otherwise qualified to be elected
15 to the Board of Directors.

16 76. Under the present requirements of the Act,
17 to be eligible as a director, a person must hold stock
18 on which not less than five thousand dollars have been
19 paid up. At present market value of 150 for The Montreal
20 City and District Savings Bank stock and 66 for The Quebec
21 Savings Bank, this represents \$75,000 and \$33,000
22 respectively.

23 77. Consequently, the Quebec Savings Banks
24 recommend that the present minimum requirement of 500
25 shares be reduced to 100 shares.

26 Section 24 - Authorized Capital Stock:

27 78. It seems advisable that authority be given
28 to the Quebec Savings Banks to split their shares in
29 order to make them more accessible to small investors
30 and also to insure a wider distribution of the stock.



79. Owing to the present high price of the shares of The Montreal City and District Savings Bank a split into a much larger number of shares, a ten for one split for example, would have to be considered. Such a split, however, would reduce the par value of the shares to such a level as to diminish their prestige. To avoid such a situation the Quebec Savings Banks recommend that no par value shares be substituted to the present \$10 par value.

Section 26 - (c) Price Limitation on New Shares:

80. The discrepancy between the maximum price at which new share capital may be issued and the present market value of the shares is such as to render the issue of new capital very onerous and so deprive the Quebec Savings Banks of capital they might need for their expansion.

81. They feel that new shares should be sold at a price more in line with real value and prevailing market conditions at time of issue.

82. At present indicated dividend rate, cost of new money would be over 5 per cent, whereas the yield is about 2 per cent on the present market value of the stock of both institutions.

83. Consequently the Savings Banks recommend that paragraph (c) of Section 26 be repealed and the following substituted therefor:

"The price at which new shares may be issued shall be fixed by the Directors of the Bank".



1 Section 59 - Bonds of Public Utility Companies:

2 84. Since bonds of large public utilities
3 are considered gilt-edged investments and because of the
4 increasing possibility that the savings banks might
5 invest more heavily in short term commercial and
6 finance company paper, covered by this section, they
7 believe that the limitation to 15 per cent of deposit
8 liabilities may prove too restrictive with time.

9 85. Consequently, they recommend that
10 Section 58 also include securities of Public Utility
11 companies but with the same limitations on their purchase
12 as presently imposed by Section 59, under (a) (i) (ii)
13 (iii), and that the limitation to 15 per cent of deposit
14 liabilities imposed by Section 59 be set at 20 per cent.

15 Section 63 (g) - Loans and Advances without
16 Security:

17 86. There is an increasing demand for loans
18 by Religious Corporations, Syndics or Fabriques de
19 Paroisse. Also because of their continued expansion
20 in new districts, Savings Banks expect to be called
21 upon to make important advances to Municipalities and
22 School Boards pending the collection of taxes or
23 completion of new bond financing.

24 87. Savings Banks have a large demand for
25 personal loans from their customers who find it more
26 advantageous, because of lower interest rates, to get
27 such loans from the banks they are dealing with.
28 In our rapidly moving economy, many important changes
29 may take place during the next ten years. Because
30 of possible creeping inflation and other reasons, the



1 limitation of \$5,000 for any one personal loan might
2 be too restrictive as well as the statutory limitation
3 to 5 per cent of deposit liabilities for reasons men-
4 tioned above.

5 88. Consequently, the Quebec Savings Banks
6 recommend that the present limitation to \$5,000 for any
7 one personal loan be increased to \$10,000, and that
8 the statutory limitation to 5 per cent of deposit
9 liabilities imposed by section 63 be increased to
10 10 per cent of deposit liabilities.

11 Section 64 - Mortgage Loans:

12 Owing to the expected steady increase in
13 population, employment and output, the demand for home
14 financing services in Canada will be substantial in the
15 coming decade.

16 90. According to Mr. Stewart Bates,
17 President of Central Mortgage and Housing Corporation,
18 the yearly housing needs for the first half of the
19 decade will be for 125,000 to 130,000 new housing
20 units rising to about 150,000 each year for the
21 second half. Naturally if immigration were to be
22 stepped up from the present dribble, the whole picture
23 would change.

24 91. The Metropolitan area of Montreal,
25 where The Montreal City and District Savings Bank
26 has limited most of its operations up to now, had a
27 total acreage of 425,000. Of this total, about
28 100,000 acres are developed and serviced. A large
29 portion of the remaining acreage will no doubt be
30 built in the next decade.



limitation of \$5,000 for any one personal loan might
be too restrictive as well as the statutory limitation
to 5 per cent of deposit liabilities for personal loans

38. Consequently, the Quebec Savings Banks
recommend that the present limitation to \$5,000 for any
one personal loan be increased to \$10,000, and that
the statutory limitation to 5 per cent of deposit
liabilities imposed by section 63 be increased to
10 per cent of deposit liabilities.

Section 64 - Mortgages

Owing to the expected steady increase in
population, employment and output, the demand for home
financing services in Canada will be substantial in the
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90. According to Mr. Stewart Baker,
President of Central Mortgage and Housing Corporation,
the yearly housing needs for the first half of the
decade will be for 125,000 to 150,000 new housing
units rising to about 150,000 each year for the
second half. Naturally if limitations were to be
stepped up from the present practice, the whole picture
would change.

91. The Metropolitan area of Montreal,
where The Montreal City and District Savings Bank
has limited most of its operations up to now, had a
total average of 125,000. Of this total, about
100,000 homes are developed and serviced. A large
portion of the remaining average will no doubt be
built in the next decade.



1 92. Mortgage funds will also be needed
2 to finance the purchase of existing houses and to enable
3 families to use some of their equity in their homes
4 for spending or investment.

5 93. In view of these forecasts, The Montreal
6 City and District Savings Bank expects a strong demand
7 for mortgage loans from its growing clientele. The
8 Quebec Savings Bank also expects an increased demand
9 in the Quebec area.

10 94. For these reasons the Quebec Savings
11 Banks would like to have enlarged powers in the
12 conventional mortgage field and see restrictions
13 imposed by Section 64 of the Act altered or removed.

14 Consequently, they recommend the following:

15 (a) That the 40 per cent limit to deposit
16 liabilities of loans made under this Section be
17 increased to 60 per cent, excluding loans
18 made under the National Housing Act.

19 (b) That the statutory limitation for each
20 loan, to the lesser of \$100,000 or 60 per cent
21 of the Bank's evaluation of the property,
22 be increased to the lesser of 5 per cent
23 of the paid-up capital and Rest Account
24 of the Bank or 66-2/3 per cent of the Bank's
25 evaluation of existing property, and 75
26 per cent of the Bank's evaluation of new property.

27 (c) The removal of the requirement of the Act
28 that 50 per cent of the floor area of the
29 building on which a conventional mortgage
30 loan is considered be used for residential



92. Mortgage funds will also be needed

to finance the purchase of existing houses and to enable families to use some of their equity in their homes for spending on investment.

City and District Savings Bank expects a strong demand for mortgage loans from the growing clientele. The Quebec Savings Bank also expects an increased demand in the Quebec area.

93. For these reasons the Quebec Savings

Bank would like to have relaxed some of the conventional mortgage rules and see restrictions imposed by Section 94 of the Act altered or removed.

Consequently, they recommend the following:

(a) That the 40 per cent limit to deposit

liabilities of loans made under this Section be

increased to 50 per cent, excluding loans

made under the National Housing Act.

(b) That the statutory limitation for each

loan, to the lesser of \$500,000 or 50 per cent

of the Bank's evaluation of the property,

be increased to the lesser of 5 per cent

of the paid-up capital and Best Account

of the Bank or 50-50 per cent of the Bank's

evaluation of existing property, and 75

per cent of the Bank's evaluation of new property.

(c) The removal of the requirement of the Act

that 50 per cent of the floor area of the

building on which a conventional mortgage

loan is considered be used for residential



1 purposes.

2 95. The Quebec Savings Banks also recommend
3 that they be authorized to make other than first
4 conventional mortgage loans. These new powers to be
5 covered by a new section with the following statutory
6 limitations: that the amount of each loan does not
7 exceed the less of $\frac{1}{2}$ of 1 per cent of the paid-up
8 capital and Rest Account of the Bank or the difference
9 still owing on existing mortgages and 80 per cent of the
10 Bank's evaluation of the property.

11 96. That the aggregate of all outstanding
12 amounts loaned in excess of the maximum allowed
13 percentage of the Bank's evaluation of the property
14 for conventional first mortgage loans does not exceed
15 5 per cent of the Bank's deposit liabilities.

16 Policy in Regard to Opening of New Branches:

17 97. A survey of the density of population
18 within a half mile radius of the intended location is
19 first made. The scale of revenue of the inhabitants
20 is less important than the spirit of thrift in assessing
21 the growth potential of the future branch. Consideration
22 is also given to the number of banking establishments
23 in the area, the commercial district, main circulation
24 arteries, centers of attraction and pedestrian
25 circulation.

26 98. The time required to reach a profitable
27 stage in operations varies considerably and no precise
28 answer can be given: there are too many factors to be
29 considered such as the cost of the building, the rate
30 of growth and many other factors which cannot be



that they be authorized to make other than first conventional mortgage loans. These new powers to be covered by a new section with the following statutory limitations: that the amount of each loan does not exceed the less of 4 or 10 per cent of the paid-up capital and Real Account of the Bank or the difference still owing on existing mortgages and 80 per cent of the Bank's evaluation of the property.

96. That the aggregate of all outstanding amounts loaned in excess of the maximum allowed percentage of the Bank's evaluation of the property for conventional first mortgage loans does not exceed 5 per cent of the Bank's deposit liabilities.

97. A survey of the density of population within a half mile radius of the intended location is first made. The scale of revenue of the neighborhood is less important than the spirit of things in assessing the growth potential of the future branch. Consideration is also given to the number of banking establishments in the area, the commercial district, main circulation arteries, centers of attraction and pedestrian

98. The time required to reach a profitable stage in operations varies considerably and no precise answer can be given: there are too many factors to be considered such as the cost of the building, the rate of growth and many other factors which cannot be



1 evaluated in advance, like changes in economic
2 conditions which may affect employment, etc.

3 99. Before establishing a new branch, decision
4 is thus based on our experience in weighing above
5 factors as accurately as possible. No rigid rule
6 can be counted upon.

7 Statutory Limitation of Branch Location:

8 100. Should there be no statutory limitation
9 for branch location, the Quebec Savings Banks,
10 individually, might become much larger. Territorial
11 limitation, however, has its advantages but it should
12 also be applied to some other categories of financial
13 organizations seeking savings deposits.

14 101. A certain density of population is
15 necessary for a savings bank branch to operate
16 profitably within a reasonable period of time. Too
17 intense competition may result in unprofitableness
18 for all institutions concerned.

19 Internal Organization of the Quebec Savings
20 Banks:

21 102. According to articles 20 and 21 of the
22 Quebec Savings Banks Act, each Savings Bank is under
23 the management of a Board of Directors who make by-laws
24 with respect to any matter concerning the policies of
25 the Bank and the administration of its affairs. These
26 men are chosen for their vast experience in their field
27 of endeavour. They are responsible to the shareholders.
28 They may appoint as many officers and employees as they
29 consider necessary for carrying on the business of the
30 Bank. The board meetings of The Montreal City and



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is thus based on our experience in weighing above factors as accurately as possible. No rigid rule can be counted upon.

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Internal Organization of the Quebec Savings

Bank

102. According to articles 20 and 21 of the

Quebec Savings Bank Act, each Savings Bank is under the management of a Board of Directors who make by-laws with respect to any matter concerning the policies of the Bank and the administration of its affairs. These men are chosen for their vast experience in their field of endeavour. They are responsible to the shareholders. They may appoint as many officers and employees as they consider necessary for carrying on the business of the Bank. The board meetings of The Montreal City and



1 District Savings Bank are held weekly and those of
2 The Quebec Savings Bank twice a month. The permanent
3 staff of the bank consists of the executive officers,
4 heads of departments, branch managers and clerical
5 workers.

6 Executive Officers of The Montreal City and
7 District Savings Bank:

8 103. The executive officers of this Bank
9 are the General Manager, the Assistant General Manager,
10 the Chief Accountant, the Executive Secretary and
11 Manager of New Business Department, the Chief Inspector
12 and the Comptroller.

13 104. The General Manager, supervises all aspects
14 of the activities of the Bank having in mind the best
15 interest of all concerned: customers, shareholders and
16 employees. Personally or through his deputy, he
17 coordinates and supervises the work of the various
18 departments. Through daily conferences with the President,
19 on the policies of the Bank and on the most important
20 business currently handled, he acts as liaison between
21 the Board of Directors and the staff. He is responsible
22 for the implementation of the policies of the Bank.

23 105. The Assistant General Manager, supervises
24 the investments of the Bank and oversees all its
25 monetary transactions. He has under his jurisdiction
26 the Mortgage Loans Department, Personal Loans
27 Department, and Loans against Collateral Department.
28 Furthermore, he assists the General Manager in the
29 latter's duties as defined in the preceding paragraph.

30 106. The Chief Accountant, supervises the



The Quebec Savings Bank twice a month. The permanent staff of the bank consists of the executive officers, heads of departments, branch managers and clerical

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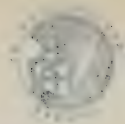
1 General Accounting, Loans against Collateral and Safe-
2 keeping Departments. He is responsible for all operating
3 reports and statements submitted to the Management
4 or to the Board of Directors, and for the preparation
5 and expediting of statutory reports to the governments.

6 107. The Executive Secretary and Manager
7 of the New Business Department

8 (a) As Executive Secretary he supervises
9 the agenda, drafts the minutes and acts as
10 secretary at all meetings of the Board of
11 Directors. He coordinates the activities
12 relative to the annual meeting of the Bank
13 and is responsible for all publications in the
14 newspapers pertaining to dividends, annual
15 meeting notices and other publications required
16 by law. He supervises the legal and other
17 aspects of real estate transactions made by
18 the Bank.

19 (b) As Manager of the New Business Department
20 he plans and organizes all new business promotions
21 through employee participation to various
22 programs or through personal contacts with
23 individuals or groups in the social, educational,
24 artistic and sport field. He is also in close
25 relation with the Advertising Department.

26 108. The Chief Inspector conducts internal
27 audits and inspections at Head Office and
28 branches. The present incumbent of that
29 position, acting as delegate of the General
30 Manager, coordinates the operations of various



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At

...and safe-

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position, acting as delegate of the General
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1 departments: Personnel, Buildings, Routine and
2 Organization, Security and other operating departments
3 of lesser importance. He is also in charge of the Legal
4 Department which looks after settlement of estates, powers
5 of attorney, claims, frauds, adjustments, etc.

6 109. The Comptroller supervises all trans-
7 actions in the Accounting, Mortgage Loans, Personal
8 Loans and Foreign Exchange Departments. He controls
9 all operating expenditures and revenues.

10 Internal Control Inspection and Safeguards:

11 110. In order to guard against error and
12 dishonest or questionable practices, a yearly audit
13 is made of each branch by the Inspector of his staff.
14 Moreover, they verify tellers' balances at least every
15 three months, independently of branch managers' special
16 inspections, and at least once a year balance all
17 ledgers in the Bank. All loans at Head Office and
18 Branches are examined by the Inspector's staff. The
19 securities against loans are counted and verified
20 and the rate at which these are held is also checked.
21 Securities held in safekeeping at Head Office and
22 branches are periodically counted and verified with
23 the individual accounts.

24 111. Furthermore, a continuous checking
25 is made in all sectors of the Bank's operations.
26 Experience concerning fraud and dishonesty compares
27 very favourable with other institutions. To increase
28 the efficiency of the personnel and safeguard against
29 possible losses due to incompetence, all employees,
30 from ledgerkeepers to accountants, have to attend



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the efficiency of the personnel and safeguard against

possible losses due to incompetence, all employees,

from ledgerkeepers to accountants, have to attend



1 training courses detailed later in this brief.

2 Budget and Reports to the Board of Directors:

3 112. An annual budget is prepared by a special
4 committee and submitted to the Board of Directors for
5 discussion and adoption. Monthly reports of expenses,
6 quarterly comparative reports on earnings and expenses,
7 in regard to the adopted annual budget, are also
8 submitted to the Board of Directors. A projection
9 of the probable earnings and expenses for the coming
10 five years is prepared by the Budget Committee and
11 submitted to the Board for discussion and determination
12 of policies.

13 Executive Officers of The Quebec Savings Bank:

14 113. The executive officers of this bank
15 are the General Manager, the Chief Inspector and the
16 Secretary and Chief Accountant.

17 114. The General Manager, supervises all
18 aspects of the activities of the Bank having in mind
19 the best interest of all concerned. He also supervises
20 the investments of the Bank and oversees all its
21 monetary transactions. He has under his jurisdiction
22 the mortgage loans department. He acts as liaison
23 between the Board of Directors and the staff. He is
24 responsible for the implementation of the policies
25 of the Bank.

26 115. The Chief Inspector, supervises the
27 personal loans department and loans against collateral
28 department. All applications for loans over \$1,000
29 are submitted to the General Manager and to the
30 Board of Directors for final approval. He assists the

training course detailed later in this brief.

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1 General Manager in the latter's duties. He conducts
2 internal audits and inspections at the Head Office
3 and branches. He coordinates the operations of the
4 various departments, personnel, buildings, routine
5 and organization, security and other operating depart-
6 ments of lesser importance.

7 116. The Chief Accountant, supervises the
8 general accounting, loans against collateral and safe-
9 keeping departments. He is responsible for all
10 operating reports and statements submitted to the
11 Management or to the Board of Directors, and for the
12 preparation and expediting of statutory reports to the
13 governments. He is in charge of the Stock Transfer
14 Book for the Capital Stock of the Bank and acts
15 as Secretary at all meetings of the Board of Directors.

16 Shareholders' Audit:

17 117. Two auditors, having exercised their
18 profession as chartered accountants for at least six
19 years, are appointed by the Shareholders at the
20 annual meeting. They make an examination of the Head
21 Office cash and the securities and loans of the Bank
22 and the securities held for customers and as guarantee
23 against loans at Head Office. They review a certain
24 number of internal inspection reports to satisfy
25 themselves that the procedure is adequate and the
26 inspection methods are satisfactory. They have access
27 to all the books of the Bank, the records, the branch
28 returns, and are entitled to receive from the officers
29 of the Bank all the information they may require. They
30 submit to the Directors, at end of fiscal year, a cer-

General Manager in the latter's duties. He conducts internal audits and inspections at the Head Office and branches. He coordinates the operations of the various departments, personnel, buildings, routine and organization, security and other operating departments of lesser importance.

116. The Chief Accountant, supervises the General accounting, loans against collateral and sale-keeping departments. He is responsible for all operating reports and statements submitted to the Management or to the Board of Directors, and for the preparation and expediting of statutory reports to the governments. He is in charge of the Stock Transfer Book for the Capital Stock of the Bank and acts as Secretary at all meetings of the Board of Directors.

Shareholders' Audit:

117. Two auditors, having exercised their profession as chartered accountants for at least six years, are appointed by the Shareholders at the annual meeting. They make an examination of the Head Office cash and the securities and loans of the Bank and the securities held for customers and as guarantee against loans at Head Office. They review a certain number of internal inspection reports to satisfy themselves that the procedure is adequate and the transaction methods are satisfactory. They have access to all the books of the Bank, the records, the branch returns, and are entitled to receive from the officers of the Bank all the information they may require. They submit to the Directors, at end of fiscal year, a cer-



Nethercut & Young

Toronto, Ontario

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1 tificate to the effect that the Statement of Assets
2 and Liabilities presents fairly the financial position
3 of the Bank.

4 Government Inspection:

5 118. The Inspector General of Banks,
6 appointed by the Governor in Council, makes a yearly
7 examination of the affairs of the Bank in order to
8 ascertain that the provisions of the Quebec Savings
9 Banks Act are observed and that the Bank is in a
10 sound financial condition. He also reviews the periodic
11 reports submitted by the Bank to the Minister of
12 Finance and the Bank of Canada.



1 SECTION - II - ASSET MANAGEMENT

2 Policies and Practices Relative to Cash and
3 Liquid Reserves:

4 119. The Quebec Savings Banks feel that it
5 is good banking practice to keep a cash reserve of
6 approximately 10 per cent of their deposit liabilities
7 in order to meet possible withdrawals by customers.

8 120. The excess of the 5 per cent minimum
9 required by law is kept either in deposit in banks,
10 Treasury Bills or Day-to-Day money. Holdings of
11 Government of Canada and provincial bonds exceed
12 by far the 15 per cent of deposit liabilities required
13 by subsection 2 of section 55 of the Act.

14 121. The Cash maintained in Bank of Canada is
15 essentially to meet Clearing commitments. The Quebec
16 Savings Banks also have in safekeeping with the Bank
17 of Canada large amounts of Government of Canada bonds
18 pledged as collateral for possible advances, to replenish
19 a temporarily reduced cash reserve and to guarantee
20 requisitions for currency. They have very seldom
21 availed themselves of these loan facilities.

22 122. For many years, the Quebec Savings
23 Banks have kept on deposit with the chartered banks
24 a good portion of their cash reserve and their business
25 relations with them are cordial.

26 123. The factors which favourable influence
27 the availability of reserves are:

- 28 (a) an increase in deposits by the public;
29 (b) repayments on Day-to-Day, Mortgage,
30 Personal and other loans;

Polities and Practices Relative to Cash

Fixed Reserves:

119. The Quebec Savings Banks feel that it

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Government of Canada and provincial bonds exceed

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a good portion of their cash reserve and their business

relations with them are cordial.

123. The factors which influence the

availability of reserves are:

(a) an increase in deposits by the public;

(b) repayment on Day-to-Day, Mortgage,

Personal and other loans;



(c) proceeds from matured bonds from the Bank's portfolio;

(d) the cashing of coupons from bond investments.

124. Conversely, important withdrawals by depositors adversely affect these reserves.

125. Since their inception, the Quebec Savings Banks have always endeavoured to develop thrift among the working classes. They have few large savings accounts and, generally speaking, deposits do not fluctuate in any disturbing manner.

126. Any excess of their normal reserve is invested. Any deficiency is replenished by calling back Day-to-Day money or selling short term securities.

127. Changes that might be contemplated in law or practice in regard to cash and liquidity requirements, with the purpose of tightening control over money and credit, would serve no useful purpose if applied to the Quebec Savings Banks. It would not, in their opinion, appreciably increase the effectiveness of monetary policy as they are not an influencing factor in the money market.

128. Since they are not allowed to discount commercial paper, they feel that any change of that nature should be restricted to commercial banks and other financial institutions whose operations strongly influence the volume of money and credit.

129. Finally, the Quebec Savings Banks have always maintained cash and liquid reserves much in excess of statutory requirements.

Bank's portfolio;
 (5) the cashing of conditional bond
 investments.
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 nature should be restricted to commercial banks and
 other financial institutions whose operations strongly
 influence the volume of money and credit.
 129. Finally, the Quebec Savings Banks have
 always maintained cash and liquid reserves much in
 excess of statutory requirements.



1 Investment Policies:

2 130. When deciding on investment policies,
3 the Quebec Savings Banks have always in mind their
4 responsibility as custodians of the public's savings.
5 Their investment policy is determined accordingly, with
6 security as the first objective. Decision on policies
7 is determined by the Board of Directors after
8 consultation with Management.

9 131. After putting aside the cash believed
10 necessary to meet possible withdrawals, surplus funds
11 are invested in bonds, preferred stocks, mortgage
12 and personal loans, and loans against collateral security.

13 132. Until 1948, investments were mostly
14 in bonds. That year, in response to a growing demand
15 from their clientele, the Savings Banks asked for and
16 were granted the authorization to make loans on first
17 mortgages and personal loans. The results have been
18 most satisfactory to both the public and the
19 institutions. The demand has continued to increase,
20 but the banks had built such large bond portfolios
21 that, at the present time, the percentage of bonds
22 held to deposit liabilities still exceeds by far
23 the minimum legal requirements.

24 Classes of Assets and their Proportion to
25 Total Assets:

26 133. Schedules IV and IV-A show the classes
27 of assets and their proportion to total assets as at
28 December 31, 1961.

29 Scope of Lending Powers:

30 134. Although lending powers in mortgages



130. When deciding on investment policies,

responsibility as custodians of the public's savings. Their investment policy is determined accordingly, with security as the first objective. Decision on policies is determined by the Board of Directors after consultation with Management.

131. After putting aside the cash believed necessary to meet possible withdrawals, surplus funds are invested in bonds, preferred stocks, mortgages,

and personal loans, and loans against collateral security.

132. Until 1948, investments were mostly

in bonds. That year, in response to a growing demand from their clientele, the Savings Banks asked for and were granted the authorization to make loans on first mortgages and personal loans. The results have been

most satisfactory to both the public and the

institutions. The demand has continued to increase,

but the banks had built up large bond portfolios

that, at the present time, the percentage of bonds

held to deposit liabilities still exceeds by far

the minimum legal requirements.

133. Schedules IV and IV-A show the classes

of assets and their proportion to total assets as at

December 31, 1961.

Scope of Lending Powers:

134. Although lending powers in mortgages



1 and personal loans have been enlarged since first
2 granted in 1948, developments in recent years have
3 rendered them too restrictive.

4 135. The Quebec Savings Banks wish to keep
5 their identity as Savings Banks and are not interested
6 in making loans to industry and commerce. They are
7 quite happy with their present role of providing full
8 banking services to the individual and the family.

9 Mortgage Loans:

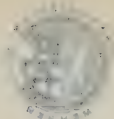
10 136. Mortgages are nearly as liquid as bonds.
11 Monthly, quarterly and semi-annual instalments, as well
12 as the relatively short term of the loans, produce a
13 large and constant inflow of money.

14 137. Capital repayments on loans made under
15 the National Housing Act are very low in the early
16 years of the loan.

17 138. The banks believe that a secondary
18 market for mortgages will gradually develop in Canada.
19 With a governmental program to stabilize the economy,
20 there is little likelihood that mortgage lenders,
21 even in a major recession, would ever suffer the sharp
22 shrinkages in assets they faced in the early thirties.

23 139. The Quebec Savings Banks feel justified
24 in asking for amendments to Section 64 of the Act.
25 Their record shows that throughout their existence
26 they have always invested wisely the monies entrusted in
27 their care and they will continue to do so.

28 140. But in a world of fierce and sometimes
29 not too fair competition, they would like to obtain
30 at least the same lending powers, in the mortgage field,



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2 granted in 1948, developments in recent years have
3 rendered them too restrictive.

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5 their identity as Savings Banks and are not interested
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29 not too fair competition, they would like to obtain
30 at least the same lending powers in the mortgage field.



1 as their competitors who are going after the public's
2 savings for mortgage investments.

3 Personal Loans:

4 141. Personal loans are requested in ever
5 larger numbers and amounts. The Quebec Savings
6 Banks find Section 63 of the Act covering them too
7 restrictive.

8 142. There are a number of indications
9 that consumer borrowing does fit into the concept
10 of a savings institution; for with the rising sense
11 of economic security among the nation's consumers,
12 there has been a growing tendency to borrow for large
13 consumer expenditures rather than to save for them.
14 Thus the savings process has become the repayment
15 of the loan after the purchase has been made instead
16 of the building up of the account prior to the purchase
17 of the "big ticket" item.

18 143. The substitution of personal loans
19 for prior accumulation of savings as a means of financing
20 big consumer items has not been the only way in which
21 consumer borrowing has replaced voluntary savings in the
22 public's attitudes. In addition, while savings accounts
23 formerly served as the source of funds emergencies such
24 as sickness, now the growth of insurance against
25 emergencies and ready availability of consumer credit
26 have enabled a vast number of families to give up
27 this motive for saving and to rely on personal loans
28 in time of need.

29 Investments in Securities:

30 144. The Quebec Savings Banks' investments

as their competitors who are going after the public's savings for mortgage investments.

141. Personal loans are requested in ever

larger numbers and amounts. The Quebec Savings Banks find Section 68 of the Act covering them too

restrictive.

142. There are a number of indications

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of a savings institution; for with the rising sense

of economic security among the nation's consumers,

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consumer borrowing has replaced voluntary savings in the

public's attitudes. In addition, while savings accounts

formerly served as the source of funds emergencies such

as illness, now the growth of insurance policies

and annuities and ready availability of consumer credit

have enabled a vast number of families to give up

this motive for saving and to rely on personal loans

in time of need.

Investments in Securities

144. The Quebec Savings Banks' investments



1 in securities have been mostly in Government, Provincial
2 and Municipal bonds. They also hold in their portfolios,
3 in lesser amounts, corporate bonds and bonds of Religious
4 Corporations, Syndics and Fabriques de Paroisse.

5 145. Bond maturities appear in Schedules
6 V and V-A.

7 146. Most bonds mature within ten years
8 and maturities are so distributed that the banks
9 have funds available each month to face possible large
10 withdrawals of deposits or to meet new demands for loans.
11 Any surplus of funds is reinvested in bonds.

12 147. When market conditions warrant,
13 trading may be made before maturity.

14 POLICIES AND PRACTICES WITH RESPECT
15 TO MORTGAGES AND LOANS

16 Conventional Mortgages:

17 148. Conventional mortgages are usually
18 made for terms of five to twenty years repayable
19 either by semi-annual instalments of $2\frac{1}{2}$ per cent
20 on capital, plus interest or by monthly instalments
21 comprising capital and interest, and amortized over a
22 period not exceeding twenty years.

23 149. For five year loans, if instalments,
24 interest, taxes and insurance premiums are not in
25 arrears and the property is in good condition, the
26 loan is renewed for another five years at the then
27 prevailing rate of interest. The same procedure is
28 repeated, at the end of each succeeding five year
29 period, until the loan is fully paid.

30 150. Applications are screened by the
Mortgage Department and submitted to a committee.

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POLICIES AND PRACTICES WITH RESPECT TO MORTGAGES AND LOANS

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146. Most bonds mature within ten years

V and V-A.

Corporations, syndicates and Enterprises de Paroisse.

in lesser amounts, corporate bonds and bonds of Religious



151. Applications accepted by the Committee are submitted, for approval, to the Board of Directors at their regular meetings.

Policies and Practices with respect to
Mortgage Loans made under the "National Housing Act"

152. As the title indicates, this category of mortgage loans is controlled by Government regulations.

153. They are amortized over periods from 20 to 35 years and are payable by monthly instalments comprising capital, interest and taxes.

154. They are insured and usually made to relatively young people who bring a small equity in the purchase of their home.

Policies and Practices in regards to Loans
Against Collateral Security

155. These loans are made to persons, stock brokers, and investment dealers. Although they are callable on demand, in practice this is very seldom done. No fixed repayments are requested and the margin required is the same as with other banks.

156. Day-to-Day loans are also made to investment dealers, on a four hour call. These loans are secured by Treasury Bills and Government of Canada Bonds maturing within three years.

157. The Chief Accountant and his assistant are authorized to approve loans up to \$25,000. Loans exceeding that amount must be approved by the General Manager or his assistant.

158. All loans of \$5,000 and over must be

151. Applications

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category of mortgage loans is controlled by Government

regulations.

153. They are amortized over periods from

20 to 35 years and are payable by monthly installments

comprising capital, interest and taxes.

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are secured by Treasury Bills and Government of

Canada Bonds maturing within three years.

157. The Chief Accountant and his assistant

are authorized to approve loans up to \$25,000. Loans

exceeding that amount must be approved by the General

Manager or his assistant.



confirmed by the Board of Directors.

Policies and Practices concerning Personal Loans

159. These loans are made for period of up to three years, covered by Life Insurance, and are repayable by equal monthly instalments. In some cases one or two endorsers are required. The Manager of the Personal Loans Department is authorized to approve loans up to \$2,000. Loans exceeding that amount must be approved by the Comptroller.

160. Personal Loans are also confirmed by the Board of Directors.

161. Applications for these loans come mostly from branches where the applicant usually has an account and is well known by the manager who recommends the loan. They are all processed at Head Office and kept there under the supervision of the Manager of the Personal Loans Department. Losses are very small. At the end of 1961, personal loans stood at \$3,500,000 for The Montreal City and District Savings Bank and at \$1,000,000 for The Quebec Savings Bank.

Policies and Practices concerning Loans to Religious Corporations, Syndics and Fabriques de Paroisse

162. Operating in a cosmopolitan district, The Montreal City and District Savings Bank is often called upon to make loans to Religious Corporations of all creeds and nationalities.

163. As additional protection for such loans it takes a first mortgage on property and often requires



confirmed by the Board of Directors.

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Loans

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stood at \$3,500,000 for The Montreal City and District

Savings Bank and at \$1,000,000 for The Quebec Savings

Bank.

Policies and Practices concerning Loans to

Religious Corporations, Synagogues and Associations de Foyers

162. Operating in a cosmopolitan district,

The Montreal City and District Savings Bank is often

called upon to make loans to Religious Corporations

of all creeds and nationalities.

163. As additional protection for such loans

it takes a first mortgage on property and often requires



pledges from members of the congregation. These loans are usually made for a maximum term of ten years.

164. Loans to Syndics are covered by a levy, known as repartition, on the properties owned by declared Roman Catholics and situated within the limits of the parish which makes the levy.

165. Before applying for loans, Fabriques de Paroisse have to comply with strict regulations from their Archbishop and all necessary precautions are taken to make sure that the parish will be able to meet its obligations.

Credit Shortage

166. When credit is in short supply, reasons given to secure loans are scrutinized more closely. The best risks are given priority to whatever credit may be available. Loan requests for speculation purposes are rejected. Under such circumstances, the Savings Banks make it a rule to satisfy as many borrowers as they can in preference to making only a few large loans.

Lending Rates

167. The Quebec Savings Banks' lending rates have generally been kept in line with those of commercial banks. The Savings Banks, being comparatively small institutions, understand the futility of trying to initiate changes in lending rates which not only could serve no useful purpose but might create some problems. These reasons do not apply in the conventional mortgage field where the commercial banks do not operate and where no statutory

gation. These
loans are usually made for a maximum term of ten years.
They are usually made for the purpose of financing
the construction of buildings, bridges, roads, and other
public works.

165. Before applying for loans, municipalities
of Louisiana have to comply with strict regulations
from their Archdiocese and all necessary precautions
must be taken to insure that the funds are used
to meet its obligations.

166. When credit is in short supply, reasons
for this may be many. The best banks are given priority to whatever credit
may be available. Loan requests for speculation
purposes are rejected. Under such circumstances,
the Savings Banks make it a rule to satisfy as many
borrowers as they can in preference to making only
a few large loans.

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of commercial banks. The Savings Banks, being
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rates which not only could serve no useful purpose
but might create some problems. These reasons do not
apply in the commercial mortgage field where the
commercial banks do not operate and where no statutory



1 rate limit exists. Also, changes in general credit
2 conditions have not been accompanied so far by any
3 noticeable difference in the demand for funds. With
4 the 6 per cent ceiling on lending rates, the spread
5 between high and low in rates has been quite narrow.
6 The rate has thus never been an important factor.

7 168. With the constantly rising costs in
8 banking operations, the 6 per cent ceiling on lending
9 rates appears too low and should, in our opinion, be
10 revised upward.

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conditions have not been as good as they were in 1948. With the constantly rising costs in banking operations, the 6 per cent ceiling on lending rates appears too low and should, in our opinion, be

noticeable difference in the 4 per cent ceiling on lending rates has been quite narrow. The rate has thus never been an important factor.

Very truly yours,

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SECTION - III - LIABILITIES

Classes of Liabilities

169. Liabilities of the Quebec Savings Banks, except Capital, Rest Account and Undivided Profits Account, are as follows:

- (a) Deposits by the Government of Canada.
- (b) Deposits by Canadian provincial governments.
- (c) Deposits by the public.
- (d) Poor Fund or Charity Trust Fund.

Deposits by the Government of Canada:

170. Deposits by the Government of Canada represent purchases of Canada Savings Bonds by the banks' clients and the public, and allotments to the Quebec Savings Banks of new Government of Canada issues. By agreement with the Minister of Finance, those amounts are deposited with the Quebec Savings Banks and gradually withdrawn by the Government.

Deposits by Provincial Governments:

171. The Montreal City and District Savings Bank has no deposit of this category. The Quebec Savings Bank receives deposits from the Government of the Province of Quebec.

Deposits by the Public:

172. Deposits by the public are divided in four categories:

- (a) Savings Accounts
- (b) Personal Chequing Accounts
- (c) Christmas and Holiday Savings Accounts
- (d) Certificates of Deposit.



Classes of Liabilities

169. Liabilities of the Quebec Savings Banks, except Capital, Reserves and Undivided Profits Account, are as follows:

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in four categories:

(a) Savings Accounts

(b) Personal Chequing Accounts

(c) Christmas and Holiday Savings Accounts

(d) Certificates of Deposit.



1 Savings Accounts:

2 173. Savings Accounts bear interest at
3 2-3/4 per cent per annum. Interest is calculated
4 on the minimum quarterly balance on deposit and credited
5 at the end of each quarter by The Montreal City and
6 District Savings Bank and semi-annually by The Quebec
7 Savings Bank.

8 174. The Quebec Savings Banks reserve the
9 right to require a notice from their clients before
10 withdrawals may be authorized. In practice, however,
11 deposits are paid on demand.

12 175. Included in this category are School
13 Savings Accounts. They bear the same rate of interest
14 and have the same withdrawal privileges.

15 Personal Chequing Accounts:

16 176. Personal chequing accounts are used
17 for small current transactions such as the payment of
18 bills and the balance maintained is usually small.
19 No interest is paid on these accounts.

20 Christmas and Holiday Savings Accounts:

21 177. Christmas and Holiday Savings Accounts
22 favour methodical savings for a definite purpose.
23 The depositor binds himself to deposit regularly a
24 certain amount during a fixed term, at the end of
25 which the Bank remits the accumulated funds plus
26 interest calculated at 2-3/4 per cent per annum. As
27 a rule no withdrawals are allowed until the term has
28 expired.

29 Certificates of Deposits:

30 178. Certificates of Deposits are issued

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which the Bank remits the accumulated funds plus

interest calculated at 2-3/4 per cent per annum. As

a rule no withdrawals are allowed until the term has

expired.

Certificates of Deposits:

178. Certificates of Deposits are issued



1 for fixed amounts which depositors agree to leave
2 on deposit for a period of not less than 90 days.
3 The advantage of this kind of deposit is that interest
4 is calculated from the date of issue of the certificate
5 to the date of reimbursement.

6 Poor Funds:

7 179. As mentioned earlier in this brief,
8 the two Quebec Savings Banks were, at first and until
9 1871, mutual and philanthropic institutions. Reserves
10 for depreciation and possible losses had been created
11 from accumulated profits. But at the time of
12 incorporation, remaining surpluses stood at \$180,000.
13 for The Montreal City and District Savings Bank, and
14 at \$83,000 for The Quebec Savings Bank. As these
15 monies belonged to nobody in particular, they were
16 placed in a special fund called "The Poor Fund".

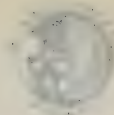
17 180. The revenue from these funds is
18 distributed at the end of each year to various
19 charitable organizations.

20 Rate of Withdrawal of Deposits:

21 181. Schedules VI and VI-A give the rate
22 of withdrawals of deposits.

23 Interest on Deposits:

24 182. As a rule, it has been the Savings Banks'
25 policy to grant depositors the same rate of interest
26 as that paid by the commercial banks. The Quebec
27 Savings Banks are not interested in the short term
28 money that moves from institution to institution, or
29 to the open market and back, in search of an extra say
30 $\frac{1}{4}$ per cent, but rather in the long-term "investment



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 The advantage of this kind of deposit is that interest
 is calculated from the date of issue of the certificate
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 money that moves from institution to institution, or
 to the open market and back, in search of an extra say
 1/2 per cent, but rather in the long-term "investment



1 type" funds which can help build deposits without sharp
2 fund shifts.

3 183. In periods of credit expansion, when
4 a stimulus is given to the economy, deposits rise more
5 rapidly. But changes in savings banks' rates having
6 been moderate, have not, in the past, brought important
7 deposit shifts. Furthermore, many people keep money
8 in the bank for convenience and for the services the
9 bank can give. A moderate rate of return differential
10 is not important to the customer if he gets the accommo-
11 dation he needs.

12 184. The United States experience is a case
13 in point. In December 1961, the U.S. Federal Reserve
14 Board allowed commercial banks to raise their rates
15 from a flat 3 per cent on all savings accounts to 4
16 per cent on deposits held a year or more, and to $3\frac{1}{2}$
17 per cent on savings left on deposit for shorter terms.

18 185. The commercial banks moved quickly
19 to raise their rates and the thrift institutions
20 retaliated.

21 186. All the above institutions are now
22 finding that the rate increase is costing them a lot
23 of money without bringing any great influx of new
24 savings. Many admit they wish the rate war had never
25 started. Some banks have even begun to lower their
26 rates.

27 Deposit Insurance:

28 187. The Quebec Savings Banks do not believe
29 in the necessity of establishing Deposit Insurance,
30 the reason being the great liquidity they maintain

deposits without share

183. In periods of credit expansion, when a stimulus is given to the economy, deposits rise more rapidly. But changes in savings banks' rates have not, in the past, brought important deposit shifts. Furthermore, many people keep money in the bank for convenience and for the services the bank can give. A moderate rate of return differential is not important to the customer if he gets the accommodation he needs.

184. The United States experience is a case in point. In December 1961, the U.S. Federal Reserve Board allowed commercial banks to raise their rates from a flat 3 per cent on all savings accounts to 4 per cent on deposits held a year or more, and to 3½ per cent on savings left on deposit for shorter terms.

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187. The Quebec Savings Banks do not believe



Nethercut & Young

Toronto, Ontario

A1671

and the high quality of their assets.

188. The establishment of this kind of insurance might raise some doubt on the security of the deposits entrusted in their care and lower the public's confidence.



James G. Thompson
Toronto, Ontario

1887

and the high quality of their work.

188. The establishment of this kind of

insurance might raise some doubt on the security of

the deposits entrusted in their care and lower the

public's confidence.

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SECTION - IV - RELATIONS WITH OTHER FINANCIAL
INSTITUTIONS

Debt of Financial Institutions held by the
Quebec Savings Banks:

189. The proportion of such bonds to total bond investments held by the Quebec Savings Banks is practically nil. The Savings Banks do very little business in short term financial paper. They prefer to finance directly the needs of the public than to lend their money to competitors who would use it to fill the same credit functions.

Competition between the Quebec Savings Banks:

190. There is no competition between the two Savings Banks, each limiting its operations to the territory assigned to it by Section 8 of the Act.

Services offered by the Quebec Savings Banks:

191. The Quebec Savings Banks offer a large number of services to their customers and their aim is to provide a still more complete financial service for the individual and the family.

The list that follows is simply an enumeration of existing services, many of which have been more fully detailed and commented upon elsewhere in this brief and others are self-explanatory.

(a) Accounts:

Savings Accounts - School Savings Accounts -
Current Accounts - Personal Chequing Accounts -
Joint Accounts - Trust Accounts - Christmas
Club Accounts - Holiday Savings Accounts.

(b) Certificates of Deposits



SECTION - IV - RELATIONS

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(a) Accounts:

Savings Accounts - School Savings Accounts

Current Accounts - Personal Chequing Accounts

Joint Accounts - Trust Accounts - Christmas

Club Accounts - Holiday Savings Accounts.

(b) Certificates of Deposits



(c) Loans: Mortgage Loans - Personal Loans,
Loans against Collateral - Call Loans -
Day-to-Day Loans - Loans to Religious
Corporations, Syndics and Fabriques
de Paroisse and Sanatoria.

(d) Sundry Services:

Deposits by Mail - Night Depositors -
Drive- Service and Walk-up windows -
Safety Boxes - Investment Service -
Safekeeping - Travelers' Cheques -
Foreign Exchange - Letters of Credit -
Foreign Remittances - Drafts on all
countries.

Collection of Sundry Bills:

Municipal Taxes, Parking Tickets,
Public Utilities, Insurance and Oil
Companies, Central Mortgage and Housing
Corporation.

(e) Home Savings Banks: The Montreal City
and District Savings Bank started issuing
these home banks a great many years ago.
They are sold across the counter at one
dollar each though the actual cost to
the bank is about \$2.75. Although they
have not been advertised for some time,
the demand has been maintained throughout
the years and people like to give them
to their children to encourage and develop
thrifty habits. Even grown-ups use them
to build up certain reserves for purposes



(c) Loans: Mortgage Loans - Personal Loans,

Loans against Collateral - Call Loans

Day-to-Day Loans - Loans to Religious

Corporations, Syndics and Partners

de Paroisse and Sanatoria.

(d) Sundry Services:

Deposits by Mail - Night Depositors -

Drive-Service and Walk-up windows -

Safety Boxes - Investment Service -

Safes - Travelers' Cheques -

Foreign Exchange - Letters of Credit -

Foreign Remittances - Drafts on all

countries.

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1 of their own. The home banks must be
2 presented at the bank's counter for
3 opening. The \$1. deposit required at
4 time of sale is reimbursed to the buyer
5 when he brings back the bank because
6 he does not need it any more. The
7 number of banks in circulation increases
8 by about 4,500 each year and the total
9 has now reached the remarkable figure of
10 230,600 banks. The Quebec Savings
11 Bank also issues savings banks under
12 similar conditions and has over 15,600
13 banks in circulation.

14 Competition between the Quebec Savings Banks
15 and other Financial Institutions:

16 192. (a) Commercial Banks - Although these
17 institutions have branches everywhere, their competition
18 remains fair. Commercial banks started to show increas-
19 ing interest in savings accounts about the year 1934,
20 when the Bank of Canada was established.

21 193. Excessive branching by commercial banks
22 raises serious doubt as to the profitability and
23 justification of such intense competition, but this
24 affects the Quebec Savings Banks only to a limited extent.

25 194. If we compare commercial banks with
26 savings banks, we find that the difference is more in
27 the extent of the powers and privileges given to the
28 one or the other than in their methods as they apply
29 to operations common to both.

30 195. The main difference being that the



ALGVA

of their own. The home banks must be presented at the bank's counter for opening. The \$1. deposit required at time of sale is reimbursed to the buyer when he brings back the bank because he does not need it any more. The number of banks in circulation increases by about 11,500 each year and the total has now reached the remarkable figure of 11,500. Bank also issues savings banks under similar conditions and has over 15,000.

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1 Quebec Savings Banks cannot discount commercial paper
2 whereas the commercial banks are not allowed to make
3 conventional mortgage loans although such mortgages
4 may be taken as additional security for loans.

5 196. Savings accounts, personal chequing
6 accounts, and nearly all other banking services rendered
7 by commercial banks, are also available at the savings
8 banks. The Quebec Savings Banks pride themselves in
9 offering superior personal service to the individual
10 and the family to whom they are able to give their
11 undivided time and attention.

12 197. (b) Caisses Populaires - These
13 institutions started their operations in the Province
14 of Quebec at the turn of the century.

15 198. They operate under the Quebec Co-operative
16 Syndicates Act which gives them much wider powers than
17 those enjoyed by the Quebec Savings Banks under the
18 Quebec Savings Banks Act.

19 199. As expressed by the will of its founder,
20 the Caisse Populaire was to be a parochial institution.
21 But its field of operations soon exceeded the parochial
22 boundaries.

23 200. Caisses Populaires are no longer single
24 institutions; through their union connection, they
25 have become one single bank with multiple branches,
26 without being subjected to the supervision and restrict-
27 ions of savings banks.

28 201. The avowed objectives of the Caisses
29 Populaires are to encourage thrift and saving among
30 their members and to grant them loans for personal needs



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1 and other uses.

2 202. But the Caisses have gradually invaded
3 the banking field and today, without having to pay
4 income tax, they compete in nearly all the services
5 rendered by savings and commercial banks.

6 203. These privileged conditions enable them
7 to pay a higher rate of interest on deposits. It is also
8 reflected in their rate of growth; for example, in
9 1955, "L'Union Regionale de Montreal des Caisses
10 Populaires Desjardins" comprised 38 caisses with total
11 assets of \$2,000,000. In 1961, the number of caisses
12 had increased to 298 with total assets of \$285,000,000.

13 204. (c) Credit Unions or Caisses d'Economie
14 These institutions pursue the same objectives as the
15 Caisses Populaires and, generally speaking, observations
16 made above concerning the Caisses Populaires equally
17 apply to "Credit Unions" or "Caisses d'Economie".

18 205. (d) Trust Companies - These institutions
19 may be governed by either a federal or provincial
20 charter. Their main functions are to act as administra-
21 tors and executors of estates. But since a few years
22 certain of these companies, who used to operate locally,
23 have started to open branches across the country. They
24 invite the public to open savings accounts, with
25 checking privileges, and thus compete with Commercial
26 and Savings Banks.

27 206. Their investment and lending powers
28 being less restricted than those of Savings Banks they
29 can pay a higher rate of interest on demand and time
30 deposits.

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can pay a higher rate of interest on demand and time

deposits.



1 207. (e) Finance Companies - Many of the
2 remarks made in regard to trust companies also apply
3 to many finance companies: they compete with banks
4 in loans and deposits, are less restricted in their
5 investments and lending powers. If savings need to
6 be protected, many of the restrictions imposed on
7 savings banks should apply to them.

8 208. They also secure funds for their
9 operations by issuing their own short term paper and
10 borrow from commercial banks or sometimes through
11 bond issues.

12 Factors Influencing the Rate of Growth of
13 the Quebec Savings Banks:

14 209. (a) Favourable Factors - The opening
15 of a larger number of branches in recent years, especially
16 by The Montreal City and District Savings Bank, has been
17 the most important factor of growth.

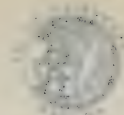
18 210. The extension of services given to the
19 public has also been a contributing factor.

20 211. Particular attention is given to the
21 training of the personnel and we find that this gives
22 profitable results.

23 212. (b) Unfavourable Factors - Restricted
24 powers imposed on the Quebec Savings Banks as compared
25 with the wider powers enjoyed by some of their competitors
26 hamper the growth of the savings banks.

27 213. Competition by tax exempt institutions
28 operating in the banking field also slows the rate of
29 growth.

30 The Inequity of Tax Exemption Accorded to



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SAVINGS BANKS AND WHAT THEY DO

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1. Expansion of Services

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The Incapacity of Tax Exemption Accorded to



1 Certain Institutions:

2 214. A discussion cannot be made of the
3 factors influencing the growth of the Quebec Savings
4 Banks without mentioning the difference in the treatment
5 accorded to them and other taxpayers, and the treatment
6 accorded to tax exempt institutions.

7 215. Although institutions operating as true
8 cooperatives have a raison d'etre and may render
9 valuable services to their members, things are different
10 when such institutions depart from the principles that
11 should govern their operations and enter fields outside
12 their domain such as banking.

13 216. True cooperatives are supposed:

14 (a) to give rebates to their members in
15 proportion to the profits realized on transactions
16 made with each of them;

17 (b) to deal only with their members. Other-
18 wise the profits they make should be considered on the
19 same footing as those of any other business concern
20 and be taxable accordingly;

21 (c) profits on investments, except required
22 reserves proportionate to their liabilities and risks,
23 should be periodically distributed to members;

24 (d) no other surplus is justified, which
25 results in asset accumulations that are not distributed
26 to members.

27 217. A large number of cooperative societies
28 violate one or more of such principles. They no longer
29 are content to render service to their members but solicit
30 business from all and sundry and even make commercial

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factors influencing the growth of the Quebec Savings Banks without mentioning the difference in the treatment accorded to them and other taxpayers, and the treatment accorded to tax exempt institutions.

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1 loans. Some do not give rebates or, if they do,
2 such rebates are more symbolic than real, and they
3 build up surpluses that have no relationship whatsoever
4 to the amount at risk and the degree of risk involved.

5 218. Although the original founders (and
6 perhaps many of the present Directors) may have been
7 motivated by a desire to encourage thrift rather than
8 to make a profit, today the managers and Directors of
9 a great many among these institutions are motivated
10 more by a "business purpose". In fact a large number
11 of instances can be cited where business is solicited
12 from regular business establishments such as furniture
13 stores, automobile dealers and others. Arrangements
14 are also made with the retailers for the instalment
15 buyers to be financed by the cooperative society.

16 219. The main purpose being to increase the
17 revenues and profits of the society and, perhaps, the
18 importance of the managers and the prestige of the
19 Directors.

20 220. The fact is that a large portion of
21 these profits resulting from business is not distributed
22 to members whose expenses would otherwise be decreased,
23 or to savers whose revenues would be taxable.

24 221. This creates an unfair situation and
25 deprives the Government from much needed revenues.
26 When the rates of taxation were low, this was of less
27 importance. But at present rates, preferential treatment
28 of this sort is unjust to other taxpayers who are
29 called upon to shoulder a heavier load than would other-
30 wise be the case.



1 222. These so-called cooperative societies
2 try to justify this situation by pretending that they
3 are "mutuals".

4 223. The Quebec Savings Banks, in common
5 with other tax-paying corporations, believe that they
6 themselves are the true "mutuals" since they contribute
7 more than half of their earnings to the support of the
8 State and to the welfare of all the citizens of Canada.
9 This, in their opinion, constitutes mutuality of the
10 highest order, of far greater breadth and wider
11 conception than mutuality between a select few.

12 224. It violates also the principles of
13 democracy or even of socialism which demand that each
14 and every citizen bears his share of the common load
15 and does not benefit at the expense of his co-citizens.

16 225. Cooperatives should be held strictly
17 accountable for all undistributed profits, net of
18 reasonable reserves related to actual risks and calculated
19 at rates fixed by the Government, and excess profits
20 should be taxed at the same rates which apply to other
21 business.

22 226. Any other alternative will result in
23 accelerating the growth and the increase in number of
24 groups formed for the express purpose of evading taxes.
25 The ultimate will be reached when such groups are so
26 numerous that only a minority of the citizens will
27 be left to bear the whole taxation load.

28 227. The Quebec Savings Banks are not the
29 only ones who are conscious of this tax problem.
30 None other than Mr. John F. Kennedy, President of the



1 United States, in his programme of tax reforms,
2 includes the elimination of "unwarranted tax
3 preferences" to cooperatives, mutual fire and casualty
4 insurance companies, mutual savings banks, and savings
5 and loan associations.

6 Comparative Interest Rates Paid and Charged:

7 228. A comparison with other financial
8 institutions of interest rates paid and charged
9 appears in Schedule VII.

10 Complementary Relationship with other
11 Financial Institutions:

12 229. Directors and executive officers of
13 the Quebec Savings Banks have often occasion to meet
14 their counterparts from other financial institutions
15 to discuss mutual problems and exchange views on
16 banking procedures and practices, and on matters of
17 common interest.

18 230. The Savings Banks deal regularly in
19 bonds, through securities dealers, for their own
20 portfolios and for trading account. They also do some
21 day-to-day business with them and receive lists of
22 quotations, comments on market conditions and, from
23 the dealers' research departments, valuable studies
24 on various corporations. Occasionally, the banks are
25 invited to participate in new issues as members of
26 selling groups.

27 Clearing House Membership:

28 231. The Banks doing business in any city
29 or town, or such of them as may desire to do so, may
30 form themselves into a Clearing House.



and loan associations.

associations of interest rates and changed
 appears in Schedule VII.

Financial Institutions:
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 quotations, comments on market conditions and, from
 the dealers' research department, valuable studies
 on various corporations. Occasionally, the banks are
 invited to participate in new issues as members of
 selling groups.

Clearing House Members:
 1931. The Bank does business in any city
 or town, or group of them as may desire to do so, may
 form branches with a Clearing House.



232. Banks, thereafter establishing offices in such city or town, may be admitted to the Clearing House as members thereof by receiving the affirmative vote of three-fourths of the members, certifying assent to the constitution, by-laws, rules and regulations, and subscribing to all agreements in the same manner as the original members.

233. The Quebec Savings Banks upon agreeing to comply with the by-laws and other requirements of the Canadian Bankers Association, were admitted as members either of the Montreal or the Quebec Clearing Houses with all privileges.

234. The objects of the Clearing House are to facilitate, at one place and at one time, the daily exchange between the several members, the settlement of the balances resulting from such exchange, the promotion of the interests of the members and the maintenance of sound banking practices.

235. The fees and cost are assumed by an assessment upon the members. Twenty-five per cent (25%) should be met by equal assessments upon the members and the balance of seventy-five per cent (75%) should be assumed on the basis of total deliveries of the respective members to Clearing House for the antecedent calendar year. The Quebec Savings Banks are quite satisfied with the present Clearing arrangements and have no suggestions to offer for any changes.

Relationship with Bank of Canada and Minister of Finance:

236. By the nature of their operations, the



1 commercial banks have more frequent contacts with the
2 Bank of Canada and with the Minister of Finance than
3 the Quebec Savings Banks. It is mostly through the
4 commercial banks that the Bank of Canada controls the
5 volume of credit in the country. Savings Banks not
6 being an influencing factor in this field, the need
7 for consultation is very limited. The Savings Banks
8 deal directly with the Bank of Canada in new Government
9 of Canada issues, but their routine transactions are
10 mostly done through its agents in Montreal and Quebec.
11 Statutory reports and statements are submitted to the
12 Minister of Finance and to the Bank of Canada.

13 Need for better Understanding of Bank of
14 Canada Policy:

15 237. The prestige of the Bank of Canada
16 might be enhanced if the public had a greater under-
17 standing of its policies. The Bank should provide
18 more material to enlighten the public on monetary
19 matters. A rather more knowledgeable interest in
20 the Bank's operations by the press would also encourage
21 wider discussion and understanding of the Bank's
22 functions and policy.

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SECTION - V - REVENUES AND EXPENDITURES - PERSONNEL

Sources of Revenues:

238. Schedules VIII and VIII-A give a breakdown in percentage of sources of revenues, administrative costs, and interest paid to depositors for the last four years.

(a) Investments in Securities and Loans

Changes in revenues from securities and loans reflect the investment policies followed by each bank.

(b) Other Operating Revenues

These are derived from the following services:

Service Charges - Fees for collecting Public Utility Companies' bills and other bills - Safekeeping - Foreign exchange and other banking services.

Interest and Administration Costs:

239. Interest paid to Depositors - The decrease reflects the increasing number of checking accounts on which no interest is paid.

240. Salaries and Fringe Benefits - The proportion of salaries paid in regards to total expenses has been maintained these last years. The Banks share with the employees the cost of group life insurance, hospitalization insurance and contribute to the Employees' Pension Funds. Furthermore the Banks grant bonuses to the members of their staffs.

241. Other Operating Costs - The increase in expenses reflects the expansion of the Banks in the course of the last four years and the extension of their



services to the public.

Policies and Practices relating to Reserves:

242. The Quebec Savings Banks follow the rules issued by the Minister of Finance in respect to policies and practices relating to valuation reserves and the reserves against bad and doubtful debts.

243. Realizable values are determined as follows for the purpose of calculating permitted specific reserves: under these rules, specific reserves are permitted on all classes of bond investments in order to bring the book value down to market value. Exceptions to these rules are bond holdings of the Government of Canada, Canadian Provinces and Federal and Provincial guaranteed bonds which are published at amortized cost.

244. Specific reserves in respect of stocks held for Investment Account, which may be required to reduce the book value to market value, are charged against Tax Paid Reserve.

245. Specific reserves are also established for doubtful debts, on certain categories of loans, to reduce the book value of these loans to estimated realizable value.

Selection, Training and Promotion of Personnel:

246. (a) Personnel Recruiting and Selection - Recruiting is done mostly amongst young people since the banking career requires many years of training. However, this policy does not preclude older persons with special qualifications from being hired.

247. Most of the personnel is recruited amongst



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247. Most of the personnel is recruited amongst



1 high school graduates.

2 248. (b) Aptitude Tests - After an
3 interview with the recruiting officer and the passing
4 of a summary examination, the applicant is submitted
5 to certain psycho-technical tests. The purpose of
6 the psycho-technical tests is to bring out the essential
7 traits and the corresponding qualities of the candidate
8 in relation to the requirements of the banking career.

9 249. (c) Personnel Training - Training
10 is given by qualified monitors and through specialized
11 courses.

12 250. The personnel training programme is
13 continuous and extends to officers of all departments.

14 251. The Bank defrays the cost of all other
15 professional courses such as: banking - administration -
16 foreign languages - etc.

17 252. (d) Promotions - Promotions are
18 given according to efficiency reports and
19 seniority.

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SECTION - VI - VIEWS ON THE CAPITAL MARKET

Workings of the Securities Markets:

253. The Quebec Savings Banks, at present, do not engage in the underwriting of municipal and corporate issues. But they are often invited to participate in certain large provincial issues as members of selling groups.

254. Their operations in this field being thus limited, they are not as concerned with the arrangements and practices in the securities markets as the investment dealers. Consequently, they prefer to leave to others, more familiar with the workings of the securities markets, the initiative of making suggestions on the subject.

Marketing and Trading of Mortgages:

255. No flexible arrangements seem to exist in Canada at the present time by which residential and non-residential mortgages could be traded quickly.

256. Mortgage money is plentiful in Canada at this juncture and marketing and trading of various classes of mortgages is done through the traditional channels.

257. There has been much talk in recent months of the possibility of establishing a Mortgage Bank in Canada. However, it appears that many problems would have to be ironed out before this project could be realized and some inequalities corrected as, for instance, the limitation imposed on the Quebec Savings Banks which are authorized to lend only to 40 per cent of their deposit



liabilities, and, up to 60 per cent of their valuation of the properties on which loans are considered, whilst many other mortgage lenders are authorized to loan up to 66-2/3 per cent.

258. In addition, uniformity of provincial laws regulating mortgages would have to be established.

259. Also if the money has to be paid quickly, guarantees would be needed to insure that the title to the property is good.

Response of Capital Market to Monetary and Financial Policy:

260. We endorse the views expressed by Mr. Wric W. Kierans, in a talk given in 1960, when he said, we quote: "Too much importance should not be given to the capital market as a medium for the exercise of monetary and financial policy. High interest rates for example, are not fully effective in stemming excessive spending and investment. One could go further and say that high interest rates have a discriminatory effect in that they tend to restrict long-term investment in utilities and social projects, housing, highways, schools, hospitals, etc. and are, at the same time, virtually powerless to affect the volume of investment in private industry. The extent to which business investment is insensitive to changes in interest rates, or the capital market, is indicated by the following table:

and Financial Policy



SOURCES OF FUNDS - 603 COMPANIES
1936 - 1951

	<u>Millions of Dollars</u>	<u>Per Cent</u>
Retained Earnings	1849.	34.
Depreciation	2625.	148.2
Bonds (Net)	466.	8.6
Preferred (Net)	58.	1.1
Common Stock	<u>442.</u>	<u>8.1</u>
	5440.	;00.0

Over a period of 16 years, 603 major corporations financed 82.2 per cent of their growth by internal funds, 9 per cent by bonds, 8 per cent by common stock and 1 per cent by preferred. In other words, interest rate policy may be effective in reducing or increasing provincial or municipal investment but has no appreciable effect on business men's decisions to invest."

261. In the granting of mortgage loans, we believe that the direct application of controls to the term of credit is more effective, and would bring quicker results, that the control through ratios of specified assets to liabilities of financial institutions.

262. The Quebec Savings Banks have not been too active recently in National Housing Act loans and ratio controls, applied to them, would be less effective than direct control.

Gaps in the Canadian Capital Market:

263. Gaps certainly exist in the Canadian capital market with respect to capital for relatively small new or untried projects.

264. Although the lending powers of the



1986 - 1987
Millions of Dollars

Per Cent	
100.0	5440.0
1.1	58.0
8.6	466.0
100.0	5440.0

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Gaps in the Canadian Capital Market:

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264. Although the lending powers of the



1 Industrial Development Bank have been enlarged, many
2 small enterprises still find it very difficult to get
3 capital for their current operations and growth.

4 265. The Quebec Savings Banks do not
5 participate in the financing of such enterprises. They
6 have always been conservative in the investment of
7 the savings entrusted in their care and the limitations
8 of the law preclude them from going heavily into risk
9 capital.

10 266. This financing being beyond their field
11 of operation, the Quebec Savings Banks refrain from
12 offering suggestions as to the ways and means of
13 closing such gaps, although they are aware that the
14 question is under study by provincial governments
15 and certain groups.

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CONCLUSIONS

267. The Quebec Savings Banks are proud of their history and of the fact that they were the first institutions in Canada having for special aim the encouragement of thrift and the insuring of a high degree of security for the monies entrusted to their care. Although they have had to weather many storms, economical and political, and they are meeting increasing competition, their progress shows that they have continued to enjoy the confidence of the public during a length of time unsurpassed by any other Canadian savings institution.

268. The Quebec Savings Banks sincerely hope that the brief they have presented has demonstrated conclusively their value and the very important and unique role they play. They also hope it has shown that no other institutions can, or do, fill exactly the same functions, nor can serve as efficiently the thrifty, and provide as complete a financial service to the individual and the family.

269. The Quebec Savings Banks trust that the Royal Commission on Banking and Finance will concur in the views and suggestions presented herein, and the recommendations made concerning amendments to the Quebec Savings Banks Act, in order that they be allowed to still better serve and help the increasing number of savers who deal with them with perfect confidence and peace of mind, and who are attached to the Quebec Savings Banks by strong bonds of friendship and an absolute feeling of security.



Royal Commission on Banking and Finance

SCHEDULE I

To Brief of the Quebec Savings Banks

S Y N O P S I S O F

LEGISLATION AFFECTING THE QUEBEC SAVINGS BANKS

1. 4/5 Victoria Chapter 32.

An Act to encourage the establishment of, and regulate Savings Bank in this Province. (Province of Canada) 1841.

2. 25 Victoria Chapter 66.

An Act to extend and define the powers of the Montreal City and District Savings Bank. (1862)

3. 34 Victoria Chapter 7.

An Act respecting certain Savings Banks in the Province of Ontario and Quebec. (1871)

4. Charter under the great Seal. 21 April 1871, Ref. No.2066.

5. 36 Victoria Chapter 72.

Act to amend the Act relating certain Savings Banks in the Province of Ontario and Quebec. (1873).

6. 44 Victoria Chapter 8.

An Act to further amend the act relating to certain Savings Banks in the Provinces of Ontario and Quebec and to prorogue during a certain limited time the charter of certain Banks to which the said act applies. (1881).

7. 53 Victoria Chapter 32.

An Act respecting certain Savings Banks in the Province of Quebec (1890).

8. 60/61 Victoria Chapter 9.

An Act to amend "An Act respecting certain Savings Banks in the Province of Quebec" (1897).

9. 63/64 Victoria Chapter 28.

An Act to amend the Acts respecting certain Savings Banks in the Province of Quebec (1900).

10. 1/2 Geo. V., Chapter 21.

An Act to amend the Quebec Savings Bank Act. (1911).

11. 2 Geo. V., Chapter 46.

An Act to amend the Quebec Savings Bank Act. (1912).

SYNOPSIS OF

1. 1/2 Victoria Chapter 30.
An Act to encourage the establishment of, and regulate Savings Banks in this Province. (Province of Canada) 1857.
2. An Act to extend and define the powers of the Montreal City and District Savings Bank. (1862)
3. 34 Victoria Chapter 1.
An Act respecting certain Savings Banks in the Province of Ontario and Quebec. (1871)
4. Chapter under the Great Seal. 21 April 1871, Ref. No. 3065.
35 Victoria Chapter 75.
5. Act to amend the Act relating certain Savings Banks in the Province of Ontario and Quebec. (1873).
6. 34 Victoria Chapter 8.
An Act to further amend the Act relating to certain Savings Banks in the Province of Ontario and Quebec and to provide during a certain limited time the power of certain Banks to which the said Act applies. (1871).
7. 35 Victoria Chapter 58.
An Act respecting certain Savings Banks in the Province of Quebec (1870).
8. 60/21 Victoria Chapter 9.
An Act to amend "An Act respecting certain Savings Banks in the Province of Quebec" (1877).
9. 63/64 Victoria Chapter 38.
An Act to amend the Act respecting certain Savings Banks in the Province of Quebec (1870).
10. 1/2 Geo. V., Chapter 21.
An Act to amend the Quebec Savings Bank Act. (1911).
11. 2 Geo. V., Chapter 46.
An Act to amend the Quebec Savings Bank Act. (1912).



SCHEDULE I
page 2

12. 3/4 Geo. V., Chapter 42.

An Act respecting certain Savings Banks in the Province of Quebec. (1913).

13. 13/14 Geo. V., Chapter 66.

An Act to amend the Quebec Savings Bank Act. (1923).

14. SUPPLEMENTARY CHARTER under the Great Seal (5th June 1930).

15. 23/24 Geo. V., Chapter 28.

An Act to amend the Quebec Savings Bank Act. (1933).

16. 24/25 Geo. V., Chapter 39.

An Act to amend the Quebec Savings Bank Act. (1934).

17. 8 Geo. VI, Chapter 47.

An Act to amend the Quebec Savings Bank Act. (1944).

18. 11/12 George VI, Chapter 65.

An Act to amend the Quebec Savings Bank Act. (1948).

19. 15 George VI, Chapter 35.

An Act to amend the Quebec Savings Bank Act. (1950).

20. 2/3 Elizabeth II, Chapter 41.

An Act respecting Savings Banks in the Province of Quebec. (1954.)

21. 5/6 Elizabeth II, Chapter 12.

An Act to amend the Quebec Savings Bank Act. (1957).



12. 2nd Geo. V., Chapter 14.
An Act respecting certain savings banks in the Province of Quebec. (1914)
13. 13th Geo. V., Chapter 20.
An Act to amend the Quebec Savings Bank Act.
14. 24th Geo. V., Chapter 21.
An Act to amend the Quebec Savings Bank Act.
15. 25th Geo. V., Chapter 22.
An Act to amend the Quebec Savings Bank Act.
16. 26th Geo. V., Chapter 23.
An Act to amend the Quebec Savings Bank Act.
17. 27th Geo. V., Chapter 24.
An Act to amend the Quebec Savings Bank Act.
18. 28th Geo. V., Chapter 25.
An Act to amend the Quebec Savings Bank Act.
19. 29th Geo. V., Chapter 26.
An Act to amend the Quebec Savings Bank Act.
20. 30th Geo. V., Chapter 27.
An Act to amend the Quebec Savings Bank Act.



Nethercut & Young

Toronto, Ontario

A1694

Royal Commission on Banking and Finance

SCHEDULE II

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

GENERAL STATEMENT AS AT DECEMBER 31, 1961.

ASSETS

1. Notes of and deposits with Bank of Canada and deposits with chartered banks in Canadian currency.	\$ 21,013,907.62
2. Other cash, deposits with and balances due from other banks	\$ 12,048,003.19
3. Government of Canada direct and guaranteed securities, not exceeding amortized value	\$ 33,262,908.47
4. Canadian provincial government direct and guaranteed securities, not exceeding amortized value	\$ 70,911,031.34
5. Canadian municipal and school corporation securities, not exceeding market value	\$ 30,823,343.78
6. Other Canadian securities and shares not exceeding market value	\$ 17,591,282.29
7. Securities and shares, other than Canadian, not exceeding market value	- - - - -
8. Mortgages and hypothecs insured under the National Housing Act, 1954.	\$ 10,033,167.35
9. Other first mortgages and hypothecs, less provision for estimated loss	\$ 59,761,216.47
10. Loans otherwise secured, less provision for estimated loss	\$ 7,280,563.46
11. Loans without security, less provision for estimated loss	\$ 7,669,372.93
12. Poor Fund investments	\$ 180,000.00
13. Bank premises at cost, less amounts written off	\$ 7,000,000.00
14. Other assets	\$ 105,010.05
	<u>\$277,679,806.95</u>

LIABILITIES

TO THE PUBLIC:

1. Deposits by Government of Canada.	\$ 6,674,843.00
2. Deposits by Canadian provincial governments	- - - - -
3. Deposit liabilities to the public	\$ 259,142,885.12
4. Advances from Bank of Canada, secured.	- - - - -
5. Advances from chartered banks, secured.	- - - - -
6. Poor Fund or Charity Fund Trust.	\$ 180,000.00
7. Other liabilities	\$ 979,954.27
	<u>\$266,977.682.39</u>

TO THE SHAREHOLDERS:

8. Capital paid up	\$ 2,000,000.00
9. Retained Account	\$ 8,500,000.00
10. Undivided profits	\$ 202,124.56
	<u>\$ 10,702,124.56</u>
	<u>\$277,679,806.95</u>



THE MONTREAL CITY AND DISTRICT SAVINGS BANK

GENERAL STATEMENT AS AT DECEMBER 31, 1924

ASSETS

1.	Notes of and deposits with bank	
2.	Of Canada and deposits with chartered banks in Canadian currency	\$ 21,015,004.64
3.	Other cash, deposits with and advances due from other banks	
4.	Government of Canada direct and guaranteed securities, not exceeding market value	
5.	Canadian provincial government direct and guaranteed securities, not exceeding market value	\$ 70,911,031.34
6.	Canadian municipal and school corporation securities, not exceeding market value	\$ 30,823,302.18
7.	Other Canadian securities and shares not exceeding market value	\$ 17,341,882.82
8.	Securities and shares, other than Canadian, not exceeding market value	
9.	Mortgages and hypothec insured under the National Housing Act, 1924	\$ 10,032,161.32
10.	Other first mortgages and hypothec less provision for estimated losses	\$ 32,381,216.11
11.	Loans otherwise secured, less provision for estimated losses	\$ 1,080,563.15
12.	Loans without security, less provision for estimated losses	\$ 7,468,375.97
13.	Real Estate Investments	\$ 100,000.00
14.	Bank premises at cost, less amounts	
15.	Other assets	\$ 102,073.02

\$ 17,475,000.00

LIABILITIES

1.	Deposits on Government of Canada	\$ 5,674,014.00
2.	Deposits by Canadian provincial governments	
3.	Deposits attributable to the public	\$ 229,142,842.15
4.	Advances from Bank of Canada, secured	
5.	Advances from chartered banks, secured	\$ 180,000.00
6.	Real Estate and Other Trusts	\$ 972,073.02
7.	Other liabilities	

TO THE SHAREHOLDERS:

8.	Capital paid up	\$ 2,000,000.00
9.	Reserve Account	\$ 2,700,000.00
10.	Undivided profits	\$ 202,104.00

\$ 10,102,114.00
\$ 277,073.00



Royal Commission on Banking and Finance

SCHEDULE II-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

GENERAL STATEMENT AS AT DECEMBER 31, 1961.

ASSETS

1.	Notes of and deposits with Bank of Canada and deposits with chartered banks in Canadian currency	\$ 3,130,906.
2.	Other cash, deposits with and balances due from other banks	\$ 1,560,211.
3.	Government of Canada direct and guaranteed securities, not exceeding amortized value.	\$ 3,450,504.
4.	Canadian provincial government direct and guaranteed securities, not exceeding amortized value.	\$ 17,781,128.
5.	Canadian municipal and school corporation securities, not exceeding market value	\$ 13,455,905.
6.	Other Canadian securities and shares not exceeding market value	\$ 7,332,236.
7.	Securities and shares, other than Canadian, not exceeding market value	-----
8.	Mortgages and hypothecs insured under the National Housing Act, 1954	-----
9.	Other first mortgages and hypothecs, less provision for estimated loss	\$ 7,495,079.
10.	Loans otherwise secured, less provision for estimated loss.	\$ 974,420.
11.	Loans without security, less provision for estimated loss.	\$ 1,070,893.
12.	Poor Fund investments.	\$ 83,000.
13.	Bank premises at cost, less amounts written off.	\$ 1,447,944.
14.	Other assets	\$ 45,590. <u>\$57,827,816.</u>

LIABILITIES

TO THE PUBLIC:

1.	Deposits by Government of Canada	\$ 632,204.
2.	Deposits by Canadian provincial governments.	\$ 3,521,327.
3.	Deposit liabilities to the public.	\$ 47,343,712.
4.	Advances from Bank of Canada, secured.	\$ -----
5.	Advances from chartered banks, secured	\$ 2,628,500.
6.	Poor Fund or Charity Fund Trust	\$ 83,000.
7.	Other liabilities	\$ 102,882. <u>\$54,311,625.</u>

TO THE SHAREHOLDERS:

8.	Capital paid up.	\$ 1,000,000.
9.	Rest Account	\$ 2,000,000.
10.	Undivided profits.	\$ 516,191. <u>\$ 3,516,191.</u>

\$57,827,816.



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Toronto, Ontario

A1696

Royal Commission on Banking and Finance

SCHEDULE III

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

STATISTICAL SUMMARY

<u>YEAR</u>	<u>Total Assets</u>	<u>Savings Deposits</u>	<u>Reserve Fund</u>	<u>Paid-up Capital</u>	<u>Undivided Profits</u>	<u>Net Profit</u>	<u>Surplus for year</u>
	\$	\$	\$	\$	\$	\$	\$
1905	20,246,215	18,417,194	800,000	600,000	51,006	149,919	24,919
1915	32,039,825	29,078,393	1,350,000	1,000,000	121,552	220,266	60,266
1925	57,780,664	53,695,127	1,800,000	1,498,570	149,613	276,554	76,745
1935	60,962,791	54,648,486	2,500,000	2,000,000	350,121	372,717	92,717
1945	118,864,931	109,452,558	3,750,000	2,000,000	131,018	420,984	140,984
1946	133,725,916	124,101,056	3,750,000	2,000,000	261,627	455,759	145,759
1947	146,651,530	137,384,339	4,000,000	2,000,000	177,153	462,826	182,826
1948	157,070,227	148,018,285	4,000,000	2,000,000	350,213	472,260	192,260
1949	170,771,432	161,236,102	4,000,000	2,000,000	543,485	493,172	213,172
1950	175,259,056	165,624,628	4,500,000	2,000,000	239,111	499,226	219,226
1951	176,348,654	166,088,336	4,750,000	2,000,000	168,748	506,587	206,587
1952	187,442,110	177,976,630	5,000,000	2,000,000	136,160	540,062	240,062
1953	193,769,007	183,272,627	5,000,000	2,000,000	380,402	588,217	268,217
1954	206,025,789	197,208,160	6,000,000	2,000,000	159,519	623,317	303,317
1955	220,631,044	211,385,756	6,000,000	2,000,000	445,024	670,355	310,355
1956	226,974,116	217,536,967	6,500,000	2,000,000	258,155	698,731	338,731
1957	239,472,506	220,347,463	6,750,000	2,000,000	322,991	722,686	342,686
1958	251,731,174	235,274,092	7,000,000	2,000,000	424,016	764,725	374,725
1959	253,609,157	232,006,030	7,500,000	2,000,000	299,539	821,173	401,173
1960	258,513,627	242,054,047	8,000,000	2,000,000	202,884	906,895	426,895
1961	277,679,807	259,142,885	8,500,000	2,000,000	202,125	1,009,240	499,240



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Toronto, Ontario

A1697

Royal Commission on Banking and Finance

SCHEDULE III-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

STATISTICAL SUMMARY

<u>YEAR</u>	<u>Total Assets</u>	<u>Savings Deposits</u>	<u>Reserve Fund</u>	<u>Paid-up Capital</u>	<u>Undivided Profits</u>	<u>Net Profit</u>	<u>Surplus for year</u>
	\$	\$	\$	\$	\$	\$	\$
1935	16,143,602	13,120,934	1,500,000	1,000,000	295,856	191,170	71,170
1940	15,843,973	12,371,193	2,000,000	1,000,000	199,107	168,529	48,529
1945	24,307,988	20,724,038	2,000,000	1,000,000	292,356	132,283	32,283
1950	26,531,467	22,934,693	2,000,000	1,000,000	429,171	125,691	25,691
1951	29,683,992	26,086,867	2,000,000	1,000,000	441,642	112,471	12,471
1952	30,407,618	25,453,550	2,000,000	1,000,000	442,653	101,011	1,011
1953	33,085,332	27,360,990	2,000,000	1,000,000	444,063	111,409	1,409
1954	37,860,718	31,591,870	2,000,000	1,000,000	445,300	111,237	1,237
1955	43,896,184	38,989,705	2,000,000	1,000,000	447,094	111,793	1,793
1956	45,942,554	38,161,453	2,000,000	1,000,000	448,689	111,594	1,594
1957	46,829,934	39,594,440	2,000,000	1,000,000	449,818	111,129	1,129
1958	52,150,882	47,484,592	2,000,000	1,000,000	451,465	126,646	1,646
1959	45,316,559	40,281,116	2,000,000	1,000,000	452,947	126,482	1,482
1960	53,560,421	47,834,580	2,000,000	1,000,000	475,622	172,674	22,674
1961	58,678,484	52,080,248	2,000,000	1,000,000	516,190	210,568	40,568



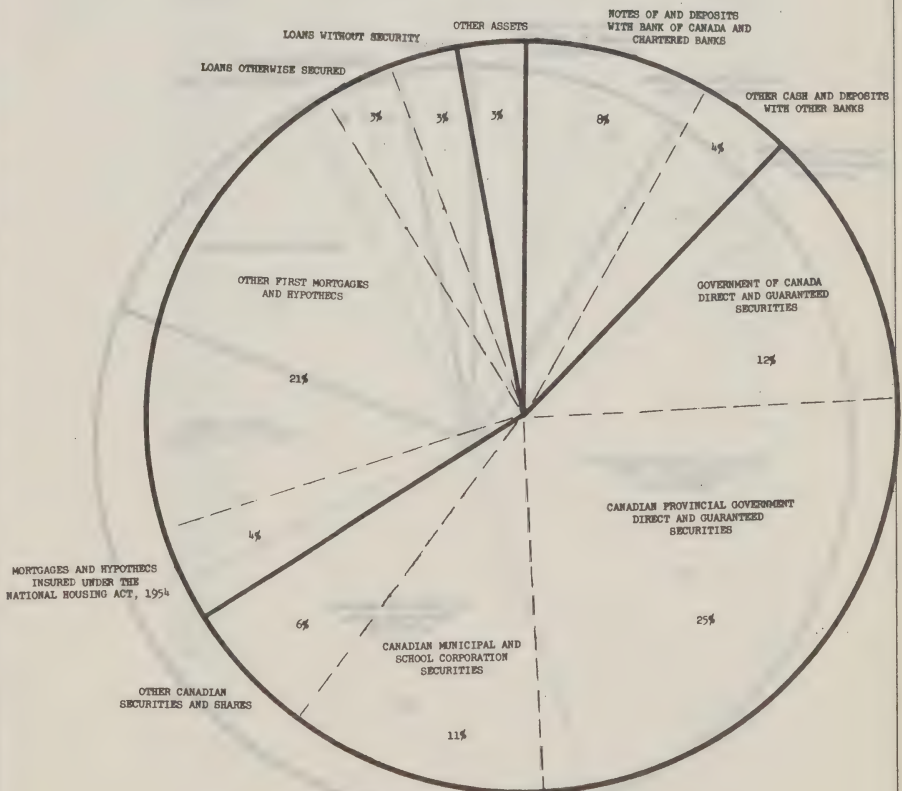
Royal Commission on Banking and Finance

SCHEDULE IV

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT DECEMBER 31, 1961





UNITED STATES DEPARTMENT OF JUSTICE

SCHEDULE IV

To Brief of the Federal Reserve Bank

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT DECEMBER 31, 1904



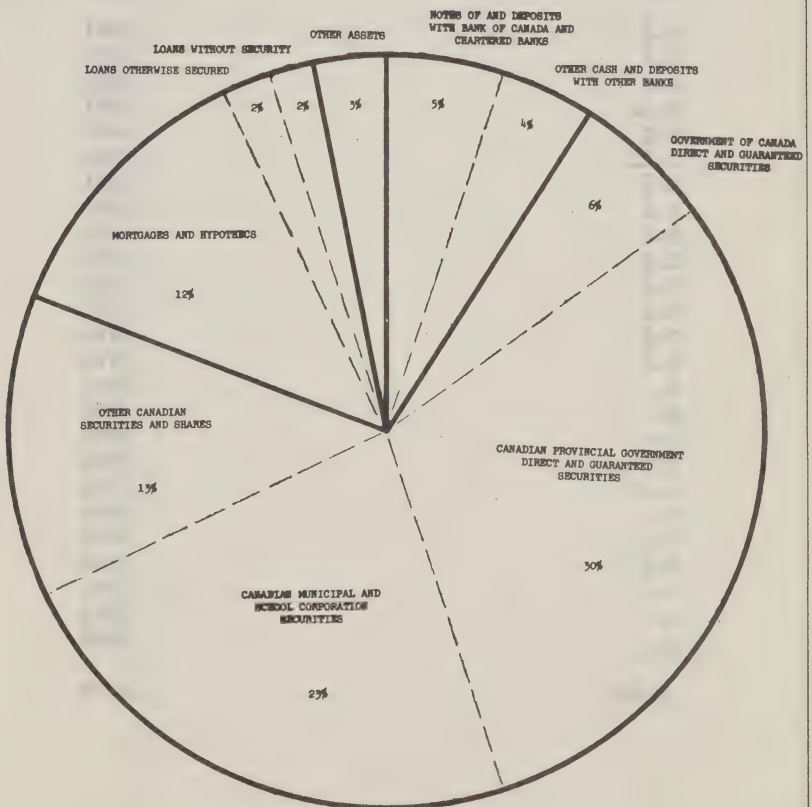
Royal Commission on Banking and Finance

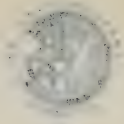
SCHEDULE IV-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT NOVEMBER 30, 1961





Royal Commission on Banking and Finance

EXHIBIT IV-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

CLASSES OF ASSETS AND THEIR PROPORTION TO TOTAL ASSETS
AS AT DECEMBER 31, 1931





Nethercut & Young

Toronto, Ontario

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Royal Commission on Banking and Finance

SCHEDULE V

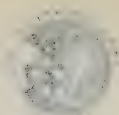
To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

MATURITIES OF BOND INVESTMENTS AS AT DECEMBER 31, 1961.

<u>Years</u>	<u>%</u>
1962	8.0
1963	8.0
1964	6.0
1965	13.6
1966	9.1
1967	12.0
1968	8.0
1969	6.5
1970	2.6
1971	2.2
1972	6.0
1973	1.2
1974	2.0
1975	4.3
1976	.9
1977	.4
1978	---
1979	.2
1980	---
1981	.7
1982	---
1983	7.8
1984	---
1985	.1
1986	.4
Total	100%

Average Maturity: 7 years 1 month.





Nethercut & Young

Toronto, Ontario

A1701

Royal Commission on Banking and Finance

SCHEDULE V-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

MATURITIES OF BOND INVESTMENTS AS AT DECEMBER 31, 1961.

<u>Years</u>	<u>%</u>
1962	3
1963	1
1964	6
1965	1
1966	4
1967	2
1968	1
1969	3
1970	4
1971	2
1972	3
1973	3
1974	4
1975	4
1976	6
1977	10
1978	3
1979	7
1980	10
1981	8
1982	6
1983	2
1984	1
1985	2
1986	1
1987	2
1992	1
Total	100%

Average Maturity: 12 years 4 months.



Royal Commission on Banking and Finance

SCHEDULE VI

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

DATA ON THE RATE OF WITHDRAWAL OF DEPOSITS

<u>YEAR</u>	<u>RATE</u>
1955	174%
1956	185%
1957	198%
1958	186%
1959	196%
1960	179%
1961	183%



UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
To Chief of the Greer-Savins Bank

THE NATIONAL CITY AND SAVINGS BANK
OF NEW YORK

YEAR	NOTE
1901	1000
1902	1000
1903	1000
1904	1000
1905	1000
1906	1000
1907	1000
1908	1000
1909	1000
1910	1000
1911	1000
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2095	1000
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2098	1000
2099	1000
2100	1000



Nethercut & Young
Toronto, Ontario

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Royal Commission on Banking and Finance

SCHEDULE VI-A

To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANK

DATA ON THE RATE OF WITHDRAWAL OF DEPOSITS

<u>YEAR</u>	<u>RATE</u>
1955	245.5%
1956	320.9%
1957	341.9%
1958	325.6%
1959	334.1%
1960	267.8%
1961	243.3%



Page 1 of 1

THE QUEBEC GAMING BOARD

CHARTER 1994

To that of the Quebec Gaming Board

THE QUEBEC GAMING BOARD

ARTICLE 1. - PURPOSE AND SCOPE

1.1	1.1
1.2	1.2
1.3	1.3
1.4	1.4
1.5	1.5
1.6	1.6
1.7	1.7
1.8	1.8
1.9	1.9
1.10	1.10
1.11	1.11
1.12	1.12
1.13	1.13
1.14	1.14
1.15	1.15
1.16	1.16
1.17	1.17
1.18	1.18
1.19	1.19
1.20	1.20
1.21	1.21
1.22	1.22
1.23	1.23
1.24	1.24
1.25	1.25
1.26	1.26
1.27	1.27
1.28	1.28
1.29	1.29
1.30	1.30
1.31	1.31
1.32	1.32
1.33	1.33
1.34	1.34
1.35	1.35
1.36	1.36
1.37	1.37
1.38	1.38
1.39	1.39
1.40	1.40
1.41	1.41
1.42	1.42
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1.93	1.93
1.94	1.94
1.95	1.95
1.96	1.96
1.97	1.97
1.98	1.98
1.99	1.99
2.00	2.00

THE QUEBEC GAMING BOARD



Royal Commission on Banking and Finance

SCHEDULE VII

To Brief of the Quebec Savings Banks

COMPARATIVE INTEREST RATES PAID AND CHARGED

	Rate of Interest Paid on <u>Savings Accounts</u>	Rate of Interest Charged on First <u>Mortgage Loans</u>	Rate of Interest Charged on <u>Personal Loans</u>
QUEBEC SAVINGS BANKS	$2\frac{3}{4}\%$	$6\frac{3}{4}\%$	6% (maximum fixed by law)
COMMERCIAL BANKS	$2\frac{3}{4}\%$	$6\frac{1}{2}\%$ (N.H.A. LOANS)	6% (maximum fixed by law)
CAISSES POPULAIRES	$2\frac{3}{4}\% - 3\frac{1}{2}\%$	6% - 7%	6% and up
TRUST COMPANIES	$3\frac{1}{2}\%$ and up depending on term	$6\frac{3}{4}\% - 7\frac{1}{2}\%$	



REPUBLICAN PARTY
NORTH DAKOTA VII
STATE OF NORTH DAKOTA

COMMITTEE REPORT

10	Rate of Interest	Rate of Interest	
11	Paid on	Charged on First	
	Savings Accounts	Mortgage Loans	
12			(maximum fixed by law)
13			
14	COMMERCIAL BANKS	(N.H.A. 1906) (maximum fixed by law)	
15			
16	CALLES POPULARES		
17	TRUST COMPANIES		
	depending on term		



Nethercut & Young

Toronto, Ontario

A1705

Royal Commission on Banking and Finance

SCHEDULE VIII

To Brief of the Quebec Savings Banks

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

SOURCES OF INCOME AND ADMINISTRATION COSTS

<u>REVENUES</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Securities	57%	54%	52%	47%
Loans	28%	30%	33%	36%
Deposits in other Banks	3%	4%	4%	6%
Other Operating Income	12%	12%	11%	11%
	100%	100%	100%	100%

INTEREST & ADMINISTRATIVE COSTS

Interest paid to Depositors	57%	56%	55%	53%
Salaries & Fringe Benefits	27%	27%	27%	27%
Other Operating Costs	16%	17%	18%	20%
	100%	100%	100%	100%



Annual Statement of the Bank of Montreal and Trust Company

For the year ended 31st December 1911

To the Board of the Quebec Savings Bank

THE MONTREAL CITY AND DISTRICT SAVINGS BANK

SOURCES OF INCOME AND ADMINISTRATION COSTS

	1911	1910	1909
Securities	574	574	574
Loans	204	204	204
Deposits in other Banks	38	44	44
Other Operating Income	124	124	124
	1004	1004	1004

INTEREST & ADMINISTRATIVE COSTS

Interest paid to Depositors	574	564	554
Salaries & Fringe Benefits	274	274	274
Other Operating Costs	154	174	184
	1004	1004	1004



Royal Commission on Banking and Finance

SCHEDULE VIII-A

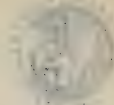
To Brief of the Quebec Savings Banks

THE QUEBEC SAVINGS BANKSOURCES OF INCOME AND ADMINISTRATION COSTS

<u>REVENUES</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Securities	61%	60%	63%	67%
Loans	27%	26%	26%	23%
Deposits in other Banks	1.6%	1.7%	1.6%	1.4%
Other Operating Income	10.4%	12.3%	9.4%	8.6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

INTEREST & ADMINISTRATIVE COSTS

Interest paid to Depositors	51%	51%	50%	50%
Salaries & Fringe Benefits	20%	20%	20%	20%
Other Operating Costs	29%	29%	30%	30%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>



STATE OF NEW YORK
 DEPARTMENT OF TAXATION
 TAX RETURN FOR THE YEAR 1914

INCOME TAX

INCOME TAX

1	1914	1913	1912	1911
2	1914	1913	1912	1911
3	1914	1913	1912	1911
4	1914	1913	1912	1911
5	1914	1913	1912	1911
6	1914	1913	1912	1911
7	1914	1913	1912	1911
8	1914	1913	1912	1911
9	1914	1913	1912	1911
10	1914	1913	1912	1911
11	1914	1913	1912	1911
12	1914	1913	1912	1911
13	1914	1913	1912	1911
14	1914	1913	1912	1911
15	1914	1913	1912	1911
16	1914	1913	1912	1911
17	1914	1913	1912	1911
18	1914	1913	1912	1911
19	1914	1913	1912	1911
20	1914	1913	1912	1911

EXPENSES & ADMINISTRATIVE COSTS

21	1914	1913	1912	1911
22	1914	1913	1912	1911
23	1914	1913	1912	1911
24	1914	1913	1912	1911
25	1914	1913	1912	1911
26	1914	1913	1912	1911
27	1914	1913	1912	1911
28	1914	1913	1912	1911
29	1914	1913	1912	1911
30	1914	1913	1912	1911

31

Royal Commission on Banking and Finance

Hearings
held at
Fredericton

Vol.

19

Date.

June 6 1962



Official Reporters
F.J. Pethercut and R.J. Young
Toronto, Ont.



ROYAL COMMISSION ON BANKING

AND FINANCE

INDEX

The Government of the
Province of New Brunswick
1968



Nethercut & Young
Toronto, Ontario

Fredericton, New Brunswick
Monday, June 4th, 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

Page No.

The Government of the
Province of New Brunswick 1968



Nethercut & Young

- 1965 -

Toronto, Ontario

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Fredericton,
New Brunswick, on Monday,
June 4th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson

- Secretary

Mr. Gilles Mercure

- Joint Secretary

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Fredericton,
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Montreal, Quebec

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Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Kingston, Ontario

- Secretary

Mr. H.A. Hampton

- Joint Secretary

Mr. Giller MacNeil



Nethercut & Young

Toronto, Ontario

- 1966 -

Fredericton, New Brunswick
Monday, June 4th, 1962.

THE CHAIRMAN: It is with very great pleasure that we find ourselves in Fredericton this morning to hold our first meeting in the Maritimes Provinces here. We have already covered the western part of the country and the central part of the country and our climax is the Maritimes.

It is a very great honour to have present this morning the Honourable Mr. Robichaud, Premier of New Brunswick, and with him the Honourable Mr. DesBrisay, the Treasurer of the Province, also the deputy, Mr. Gallagher. I understand, Mr. Premier, that your government is presenting a submission which in fact we have read with great care and interest and find it admirably prepared and it raises many points that we would like to discuss and have further information about. We are looking forward to this hearing with the greatest of interest.

HON. MR. ROBICHAUD: Mr. Chairman and members of the Commission, I do not know if I should refer to you as Mr. Chairman because you have so many titles. I don't know whether to refer to you as Your Lordship, the Honourable Mr. Porter or Mr. Chairman.

THE CHAIRMAN: As long as you get down to the facts.

HON. MR. ROBICHAUD: In any event, I wish to welcome you to this province here as well as the other members of the Commission. Of course it would be futile for me to stress the importance of this Commission

Frederickton, New Brunswick
Monday, June 4th, 1902.

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Desbriay, the Treasurer of the Province, also the

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Toronto, Ontario

1 to Canada's economy generally but particularly perhaps
2 to this area. That will be done by my esteemed colleague
3 Mr. DesBrisay, assisted by the well qualified Mr.
4 Gallagher.

5 You have just said that you have read the
6 brief. We take a certain amount of pride in this
7 brief. I personally feel that it has been well
8 prepared. There has been a lot of time, effort and
9 research work devoted to it and I hope that it will
10 make a contribution to the conclusions that will be
11 reached by you.

12 You will find that despite the economic ills
13 that perhaps plague the Atlantic area that the people
14 here are extremely warm and friendly. As evidence of
15 that just as I turned the corner this morning (I was
16 walking by myself from the office to here) a car
17 stopped and a chap said, "Hey fellow, can you tell me
18 where Queen Street is?". I said, "It is right here,
19 fellow". That is the way that people operate in this
20 province.

21 I understand that the last Commission of
22 this nature took place in the early 1930's. It produced
23 results then and I am sure that this one will. Without
24 any further remarks I shall now leave it to the
25 Minister of Finance to carry on from here and I
26 apologize if I have to leave here. I can give you the
27 reason why. The Ambassador of Japan is here and
28 apparently he wishes to see me. So I will wish you the
29 best of luck and again a warm welcome to New Brunswick
30 and the Atlantic Provinces.



Mr. DeWitt, assisted by the well qualified Mr. Gallagher.

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I understand that the last Commission of this nature took place in the early 1950's. It produced results then and I am sure that this one will. Without any further remarks I shall now leave it to the Minister of Finance to carry on from here and I reason why. The Ambassador of Japan is here and

apparently he wishes to see me. So I will wish you the best of luck and again a warm welcome to New Brunswick



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Toronto, Ontario

- 1968 -

Good day, gentlemen.

THE CHAIRMAN: Thank you very much.

Mr. DesBrisay?

SUBMISSION OF THE GOVERNMENT OF THE
PROVINCE OF NEW BRUNSWICK

APPEARANCES

Hon. G. DesBrisay	-	Minister of Finance
Mr. T.J. O'Brien	-	Deputy Minister of Finance
Mr. D.W. Gallagher	-	Economic Advisor
Mr. Edwin Allen	-	Deputy Minister of Municipal Affairs
Mr. Wm. McNichol	-	Comptroller-General

HON. MR. DesBRISAY: Mr. Chairman and
members of the Royal Commission, perhaps I should, if
I may, remain seated.

THE CHAIRMAN: Oh yes, the proceedings
are quite informal.

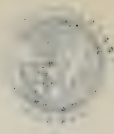
HON. MR. DesBRISAY: As has been mentioned
you have our brief and I would like to make some
brief remarks on the presentation of it. I would like
to say that it is both a pleasure and honour for
me to appear before this Commission to present the
submission of the Government of New Brunswick. In doing
so, I should emphasize the great responsibility which
rests, not only with the Commission itself, but with



1 all those in a position to contribute to its
2 deliberations. In attempting to meet this responsibil-
3 ity, we have had to recognize certain limitations which
4 have presented the forming of precise conclusions
5 on many of the points of interest to the Commission.
6 In some cases, the province's experience has been
7 limited or narrowly confined so that it would have
8 little general application; in other cases, the lack
9 of proper data has been the barrier.

10 We have, therefore, confined our comments
11 to those areas in which we felt competent to form
12 a judgment. In the process, we necessarily placed
13 a broad interpretation on the Commission's terms
14 of reference. Such an interpretation is highly
15 relevant to the Government's submission, and perhaps
16 constitutes its first important recommendation. It is
17 our hope that the Commission will agree with this
18 approach and that its policy recommendations will be
19 developed accordingly. Particularly, we are
20 concerned with the relationships between fiscal and
21 monetary policies, and it is our view that an
22 appropriate "mix" of such policies can only be
23 considered after a careful consideration of the role
24 that each can play in meeting the economic needs of the
25 country. In this respect, it is essential to underline
26 the fact that such needs vary from region to region
27 and that policies must be sufficiently flexible to
28 recognize this.

29 It was within this rather broad context that
30



all those in a position to contribute to its deliberations. In attempting to meet this responsibility, we have had to recognize certain limitations which have prevented the forming of precise conclusions on many of the points of interest to the Commission. In some cases, the province's experience has been limited or narrowly confined so that it would have little general application; in other cases, the lack of proper data has been the barrier.

We have, therefore, confined our comments to those areas in which we felt competent to form a judgment. In the process, we necessarily placed a broad interpretation on the Commission's terms of reference. Such an interpretation is highly relevant to the Government's administration and perhaps constitutes its first important recommendation. It is our hope that the Commission will agree with this approach and that its policy recommendations will be developed accordingly. Particularly, we are concerned with the relationships between fiscal and monetary policies, and it is our view that an appropriate "mix" of such policies can only be considered after a careful consideration of the role that each can play in meeting the economic needs of the country. In this respect, it is essential to understand the fact that such needs vary from region to region and that policies must be sufficiently flexible to recognize this.

It was within this latter broad context that



1 the Province undertook to express its views to the
2 Royal Commission on Banking and Finance. Basically,
3 these views fall into two categories, both of which
4 represent an important part of the responsibilities
5 of the New Brunswick Government. The first part
6 deals with the experience of the Government as a
7 borrower in the capital markets. We have not outlined
8 the Province's experience as a lender of funds, since
9 our activities in this area have not been particularly
10 extensive. The second part of the Government
11 submission is concerned with the economic implications
12 of financial policies, and the implications of the
13 financial system itself as a part of the Canadian
14 economy. Our conclusions and recommendations are,
15 therefore, presented in accordance with this broad
16 division.

17 Financing Provincial Government Requirements

18 The problems encountered by the Government
19 in making regular demands on capital markets are
20 essentially related to patterns of spending and
21 taxing, as well as borrowing.

22 The projected growth in government
23 expenditures, in conjunction with a somewhat restricted
24 tax potential, points to an increasing reliance
25 on capital markets. With the increase in other demands
26 from the same market, it is quite likely that the
27 Province will experience difficulty in obtaining its
28 capital requirements. This is the result of
29 institutionally established "limits" on New Brunswick
30 borrowing, the difficulties in entering the United



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The Problems Encountered by the Government

The problems encountered by the Government
in making regular demands on capital markets are
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The projected growth in government
expenditures, in conjunction with a somewhat restricted
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on capital markets. With the increase in other demands
from the same market, it is quite likely that the
Province will experience difficulty in obtaining the
capital requirements. This is the result of
institutionally established "limits" on New Brunswick
borrowing, the difficulties in entering the United



1 States market, and the slower rate of advancement
2 of the economy.

3 Generally, we have concluded that, for the
4 long run, to assist provinces in obtaining capital
5 requirements, some attempt should be made to reduce
6 the requirements themselves. In the short term some
7 means must be developed to insulate the Province
8 and its municipalities from the effects of policies
9 of credit restraint. To meet such needs and to
10 overcome these difficulties we have recommended:-

11 1. That Provincial borrowing requirements
12 be reduced by adjusting Federal-Provincial shared-cost
13 programmes to reflect the concept of fiscal need and
14 to introduce more flexibility in the administration,
15 planning and timing of such programmes.

16 2. That Federal-Provincial shared-cost
17 programmes be initiated in the field of economic
18 development, with emphasis on the needs of the less
19 developed parts of Canada, as a means of increasing
20 the Province's ability to meet its own financial
21 requirements in the long run.

22 3. That a study be undertaken to determine
23 the adequacy of Canadian capital markets to meet
24 domestic needs, particularly with a view to determine
25 the role which the United States market should play
26 in municipal and provincial borrowing.

27 4. That selective instruments be designed
28 to shelter certain classes of borrowers from the
29 effects of monetary restraint and to provide interim
30 assistance to such borrowers as require it.



1 5. That closer relationships be developed
2 between the Federal Government and the Bank of
3 Canada and the provinces, both to assist the provinces
4 in financing and to promote the co-ordination of
5 Federal and Provincial borrowing and investment
6 policies.

7 Economic Implications of Financing Policies

8 We have concluded that monetary policy has
9 not been sufficiently co-ordinated with fiscal policy
10 (or vice versa) in recent years, and that monetary
11 policy alone is not a sufficiently powerful weapon
12 to provide short-term economic stability. In attempting
13 to do so, certain side effects have been inappropriate
14 to the needs of the New Brunswick economy.

15 We have concluded that, to alleviate such
16 side effects, will require greater co-ordination between
17 fiscal and monetary policy, and the introduction of
18 more selectivity in the instruments of monetary
19 policy. As well, certain other adjustments to Federal
20 policy are required. Specifically, we have
21 recommended that:-

22 1. A form of standing committee be appointed
23 to ensure the integration of monetary policy with
24 Government fiscal and economic policy. Associated
25 with this objective and also to fully co-ordinate
26 Federal economic policies with those of the provinces,
27 we recommended the establishment of an economic
28 advisory board to the Federal Government -- a board
29 to exist outside the departmental framework.

30 2. In order to develop a monetary policy which



between the Federal Government and the Bank of
Canada and the provinces, both to assist the provinces
in financing and to promote the co-ordination of
Federal and Provincial borrowing and investment
policies.

Economic Implications of Financial Policies

We have concluded that monetary policy has
not been sufficiently co-ordinated with fiscal policy
(on vice versa) in recent years, and that monetary
policy alone is not a sufficiently powerful weapon
to provide short-term economic stability. In attempting
to do so, certain side effects have been inappropriate
to the needs of the New Brunswick economy.

We have concluded that, to alleviate such
side effects, will require greater co-ordination between
fiscal and monetary policy, and the introduction of
more selectivity in the instruments of monetary
policy. As well, certain other adjustments to Federal
policy are required. Specifically, we have
recommended that:-

- I. A form of standing committee be appointed
to ensure the integration of monetary policy with
Government fiscal and economic policy. Associated
with this objective and also to fully co-ordinate
Federal economic policies with those of the provinces,
we recommended the establishment of an economic
advisory board to the Federal Government -- a board
to exist outside the Governmental framework.



1 is sufficiently flexible to meet regional as well
2 as national needs, that the Bank of Canada Act be
3 amended to make explicit the responsibilities of
4 the Bank of Canada with respect to the various
5 regions.

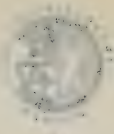
6 3. The Bank of Canada exercise its powers
7 of persuasion over the chartered banking system to
8 exempt the Atlantic region from the full force of
9 credit restriction, when applied nationally.

10 4. To increase the availability of capital
11 in the region, the operations of the Industrial
12 Development Bank be altered to permit regional
13 interest rate differentials and levels, to offset
14 the effect of inter-regional capital flows, and to
15 promote greater co-operation with Provincial
16 industrial development agencies.

17 5. Operations of the Central Mortgage and
18 Housing Corporation be altered to make mortgage funds
19 available on easier terms in economically retarded
20 areas when more arduous terms are necessary in the
21 economy as a whole.

22 6. Greater flexibility in administration be
23 introduced into agricultural credit policies to permit
24 the varying requirements of New Brunswick agriculture
25 to be more fully met.

26 These recommendations are designed to permit
27 more selective monetary controls, with a co-ordinated
28 framework of fiscal and monetary policy. However, it
29 is doubtful that monetary policies, however selective,
30 will play more than a minor role in the policy



is sufficiently flexible to meet regional as well as national needs, that the Bank of Canada Act be amended to make explicit the responsibilities of the Bank of Canada with respect to the various regions.

3. The Bank of Canada exercise its power of persuasion over the chartered banking system to exempt the Atlantic region from the full force of credit restriction, when applied nationally.

4. To increase the availability of capital in the region, the operations of the Industrial Development Bank be altered to permit regional interest rate differentials and levels, to offset the effect of inter-regional capital flows, and to promote greater co-operation with Provincial

5. Operations of the Canada Mortgage and Housing Corporation be altered to make mortgage funds available on easier terms in economically depressed areas as a whole.

6. Greater flexibility in administration be introduced into agricultural credit policies to permit the varying requirements of New Brunswick agriculture to be more fully met.

These recommendations are designed to permit more selective monetary controls, within the existing framework of fiscal and monetary policy. However, it



1 structure required to produce more rapid rates of
2 economic growth.

3 To meet this objective in New Brunswick
4 and the entire Atlantic region, will not involve
5 great dependence upon traditional forms of monetary
6 policy. It will, however, entail the use of fiscal
7 policies, both as alternatives and substitutes,
8 which will have important implications for the
9 financial system.

10 Moreover, we have concluded that monetary
11 policy, applied to imperfectly operating capital
12 markets, has not been particularly effective in recent
13 years. This points to the need for both greater
14 emphasis on fiscal policies and for broadening the
15 area of impact of monetary policy if the objectives
16 of full employment, economic growth and price stability
17 are to be met. This is true nationally, but is partic-
18 cularly so in New Brunswick and the Atlantic region.

19 With this context, we have recommended that:-

- 20 1. A national development policy be adopted
21 with the objective of achieving more balanced economic
22 growth in Canada, and under which retarded or under-
23 developed areas would be given special treatment
24 through the large-scale allocation of Federal funds
25 for development purposes.
- 26 2. The Government of Canada accept, explicitly,
27 full responsibility for both fiscal and monetary
28 policy.
- 29 3. The Commission investigate the possibility
30 of broadening the area of impact of monetary policy



structure required to produce more rapid rates of economic growth.

To meet this objective in New Brunswick

and the entire Atlantic region, will not involve

great dependence upon traditional forms of monetary

policy. It will, however, entail the use of fiscal

policy, both as substitutes and complements.

which will have important implications for the

financial system.

Moreover, we have concluded that monetary

policy, applied to ineffectively operating capital

years. This points to the need for both greater

emphasis on fiscal policies and for broadening the

area of impact of monetary policy. If the objectives

of full employment, economic growth and price stability

are to be met. This is a national objective, but its

attainment so in New Brunswick and the Atlantic region.

With this context, we have recommended that:

1. A national development policy be adopted

with the objective of achieving more balanced economic

growth in Canada, and under which regional or sector-

developed areas would be given special treatment.

through the fairer allocation of Federal funds

for development purposes.

2. The Government of Canada accept responsibility

for the development of the Atlantic region.

policy.

3. The Government accept responsibility for the



1 (or of fiscal policy as a substitute) to reflect
2 the changing environment of the past two decades.
3 Specifically, we believe that the effects of monetary
4 policy should be felt by consumer finance companies
5 and other non-bank holders of liquidity. This
6 investigation by the Commission should include as
7 well the impact of the concentration of large holdings
8 of bonds in a few institutions, and the concentration
9 of economic power in both business and labour.

10 4. A Federal regulatory body be established
11 to govern the issuance and sale of securities.

12 While our brief is concerned mainly with
13 New Brunswick, the policies we suggest have direct
14 application to all regions of Canada suffering from
15 a chronic under-utilization of their resources.
16 Indeed, it could not be otherwise given the nature
17 of Canadian federalism and the division of financial
18 resources and constitutional responsibilities and
19 authority between the provinces and the Federal
20 Government. In particular, only the Federal
21 Government has the economic and other resources
22 necessary to provide equitable solutions to the
23 economic problems of chronically retarded areas of
24 the Confederation. National policies must be developed
25 to cope with these problems; but first, there must
26 come recognition and acceptance on the part of the
27 Federal Government that regional economic problems
28 are matters of national concern.

29 Mr. Chairman, this is a brief summary of
30 our presentation which we made some time ago to you,



fiscal policy as a substitute for monetary

Specifically, we point out that the effects of monetary

policy should be felt by consumer financial expenditure

investigation by the Commission should include an

well the impact of the concentration of income policies

of economic power in both business and labour.

4. A Federal regulatory body is established

to govern the issuance and sale of securities.

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New Brunswick, the policies we suggest have direct

application to all regions of Canada suffering from

a chronic under-utilization of their resources.

Indeed, it could not be otherwise given the nature

of Canadian federalism and the division of financial

resources and constitutional responsibilities and

authority between the provinces and the Federal

Government. In Parliament, only the Federal

necessary to provide equitable solutions to the

economic problems of the country. It is a fact that

the Confederation. National policies must be developed

to cope with these (and other) problems which must

come recognition and response on the part of the

Government. These policies must be developed

and must be of the highest quality.

But, the fact that this is a vital necessity



1 and we stand ready to carry on with any questions
2 you may have.

3 THE CHAIRMAN: Thank you very much, Mr.
4 Minister.

5 COMMISSIONER BROWN: Mr. DesBrisay, I
6 wonder if I might start off by asking if you could
7 give us a little more detail of the problems that
8 you enumerate in paragraph 11 where you discuss the
9 increased financial burdens of junior governments
10 largely because of federal cost-sharing programmes.

11 HON. MR. DesBRISAY: Yes, there are large
12 numbers of cost-sharing programmes being offered
13 by the federal government to be accepted by the
14 provinces. We feel there are certain of these
15 that some of the less wealthy provinces might not be
16 able to afford on a short-term basis, but we are
17 pretty well forced into a lot of these programmes.
18 Using for detail purposes, we are into Trans Canada
19 Highway programmes as one major expenditure which is
20 a cost-sharing programme; the roads to resources in
21 the field of public works, and the technical training
22 programme.

23 We are suggesting while these programmes
24 are very good and we generally welcome them that we
25 would like to have a little more selectivity on the
26 part of the provincial government. We would like to
27 be able to have a little more choice in selecting
28 the programmes we feel would be most beneficial
29 to our New Brunswick economy.

30 COMMISSIONER BROWN: It is a very good



1 presentation, but I was wondering if you could give
2 us a little more specifically the types you would
3 prefer to have. You say you would like to be able
4 to choose more, but you don't say what your choices
5 may be. You talk about economic development and
6 roads to resources, which I would have thought would
7 fit into that programme, but I gather that is not one.

8 HON. MR. DesBRISAY: That is one of the
9 programmes we have found -- as a matter of fact, we
10 are using that programme to develop our mining area,
11 but we suggest on economic development there may be
12 shared cost programmes by the federal government
13 that we could join. Apart from the roads to resources
14 programme, this is practically the only programme,
15 shared cost, that has any serious long-range economic
16 effect.

17 THE CHAIRMAN: What about the Trans Canada
18 Highway? Do you find that has increased economic
19 development at all?

20 HON. MR. DesBRISAY: Unquestionably, Mr.
21 Chairman, but what we find -- and I think we can say
22 this very quickly -- is that 75 per cent, approximately,
23 of all shared cost programmes are in the health and
24 welfare field.

25 THE CHAIRMAN: Oh yes, that is what I was
26 going to come to. Perhaps Mr. Brown has that in mind.

27 HON. MR. DesBRISAY: Which we are committed --
28 we have to accept.

29 THE CHAIRMAN: But with programmes such as
30 the Trans Canada Highway and the roads to resources,



prefer to have. You say you would like to be able
to choose more, but you don't say what your choice
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NOW, MR. DEBRISSAY: Which we are concerned --
we have to accept.
THE CHAIRMAN: But with programmes that are
the Trans Canada Highway and the roads to resources,



1 they do apparently have some favourable economic
2 result -- stimulate growth?

3 HON. MR. DesBRISAY: Very much so.

4 THE CHAIRMAN: There may be other potential
5 programmes that you have in mind which you may in due
6 course suggest to us.

7 HON. MR. DesBRISAY: Yes.

8 COMMISSIONER BROWN: This is what I was
9 wanting to have a bit of discussion on, to get a
10 little more explicit on what sort of programmes you
11 are talking about that you are in regretfully and
12 others you would like to be in.

13 HON. MR. DesBRISAY: We would be prepared
14 to give you a suggested list as a supplement to our
15 brief of some of the programmes which we think could
16 be done on a shared cost basis with the federal
17 government which would accelerate economic development
18 within the province. I don't have any specific ones
19 in detail at the moment, but we would be quite prepared
20 to do that, and I think we could find a number.

21 COMMISSIONER MACKINTOSH: But in the main
22 your point is emphasis on development programmes
23 rather than welfare programmes?

24 HON. MR. DesBRISAY: That is it, yes. I repeat
25 again, we find ourselves where approximately 75 per
26 cent is in the health and welfare field.

27 COMMISSIONER GIBSON: And you would like to
28 be able to take, in choosing between this, more
29 development and less of the others -- say, take two
30 of one instead of one of each?



HON. MR. DEARBORN: Very much so.

THE CHAIRMAN: There may be other potential programmes that you have in mind which you may in due

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in detail at the moment, but we would be quite prepared

to do that, and I think we could find a number.

COMMISSIONER MACKINNON: But in the main

your point is especially on development programmes

HON. MR. DEARBORN: That is all, yes. I return

again, we find ourselves where approximately 15 per

cent is in the region and welfare field.

COMMISSIONER GIBSON: And you would like to



1 HON. MR. DesBRISAY: Yes, we would like to
2 be able to sit down and talk with the federal
3 authorities on selecting programmes which would have
4 a long run economic development programme.

5 COMMISSIONER MacKEEN: In other words,
6 now you are told what the programme is and given a
7 sort of assessment of your share of it without too
8 much control over it; is that it?

9 HON. MR. DesBRISAY: While we do have a
10 certain amount of control, generally that is the case.

11 COMMISSIONER MacKEEN: In effect?

12 HON. MR. DesBRISAY: In effect, yes.

13 THE CHAIRMAN: If you don't accept the offer,
14 then you get into trouble?

15 HON. MR. DesBRISAY: We find it very
16 difficult to avoid getting into them.

17 THE CHAIRMAN: Yes, I fully appreciate that.

18 COMMISSIONER BROWN: When you are talking
19 about government revenues and government taxation,
20 to what extent is this evened up by the federal grants?

21 HON. MR. DesBRISAY: You are referring to
22 paragraph ...?

23 COMMISSIONER BROWN: Paragraph 14, and table
24 2, I guess it is, in the Appendix. You talk about
25 your net general provincial and municipal revenue.
26 To a certain extent, this is evened up, isn't it, by
27 your federal grants?

28 HON. MR. DesBRISAY: The equalization policy--
29 the equalization formula applies only to three tax
30 fields -- the three main tax fields. So, there is a

HON. MR. DEARBORN: Yes, we would like

to be able to sit down and talk with the Federal

Government on a long-run economic development program.

now you are told what the program is and given a

sort of assessment of your share of it without too

much control over it; is that it?

HON. MR. DEARBORN: While we do have a

certain amount of control, generally that is the case.

HON. MR. DEARBORN: Is that right?

THE CHAIRMAN: If you don't agree the other

then you get into trouble?

HON. MR. DEARBORN: We find it very

difficult to avoid getting into them.

THE CHAIRMAN: Yes, I fully sympathize with

COMMISSIONER BROWN. When you are talking

about Government revenues and Government taxation

to what extent is this covered up by the Federal Government?

HON. MR. DEARBORN: You are referring to

COMMISSIONER BROWN: Paragraph 14, and I am

guess it is, in the Appendix. You talk about

your net general production and monetary revenues.

To a certain extent, this is covered up. Paragraph 14, by

HON. MR. DEARBORN: The general policy

the legislation controls and the way it is done

is the same as the way it is done



1 large area of tax fields which is not equalized.

2 COMMISSIONER BROWN: Can you give any
3 approximation on how your figures come up by the time
4 you have added in your tax equalization grants?

5 MR. GALLAGHER: You are referring to the
6 table at the back?

7 COMMISSIONER BROWN: Yes.

8 MR. GALLAGHER: In that table we have
9 included, for example, revenue items such as the
10 Atlantic Provinces Adjustment Grant.

11 COMMISSIONER BROWN: That is included?

12 MR. GALLAGHER: That is included, yes.

13 COMMISSIONER BROWN: I didn't realize that.
14 It indicated these were percentages of net per capita
15 taxation.

16 HON. MR. DesBRISAY: Yes, that includes
17 the Atlantic Provinces Adjustment Grant.

18 MR. GALLAGHER: For the years in which we
19 received it, during the period. We didn't get one
20 in 1956, for instance.

21 HON. MR. DesBRISAY: This shows 1956 to
22 1958, but it would only be applicable to two years.

23 COMMISSIONER BROWN: In paragraph 21 -- and
24 this is a small point, but I was wanting to get it
25 as we went along, just to clarify things in my own
26 mind -- you say prior to December 31st, 1960 the
27 province conducted the borrowing for the New Brunswick
28 Electric Power Commission. Presumably it is still
29 done under your direction, isn't it?

30 HON. MR. DesBRISAY: We have control of it,



1 yes, but they have a fiscal agent who develops the
2 programme for them and it is submitted to the government
3 for final approval because we are the guarantor, but,
4 in effect, they do all the development work in
5 arranging the borrowing.

6 COMMISSIONER BROWN: I wonder if you could
7 give us a bit of a picture of just where you consider
8 the problems lie in your provincial borrowing? You
9 make mention of the fact the province is not as well
10 known as other provinces.

11 HON. MR. DesBRISAY: Well, for a number of
12 years the province has been trying to develop the
13 American market -- to get better known on the American
14 market, and there has been a considerable amount of
15 money floated on the American market. As recently
16 as two or three years ago Mr. Gallagher and two or
17 three other people were successful in having the
18 Moody's rating raised equal to Ontario -- is that
19 right?

20 Could I ask Mr. O'Brien to come up here,
21 Mr. Chairman, who is the Deputy Minister of Finance?

22 THE CHAIRMAN: Yes.

23 HON. MR. DesBRISAY: In any event, we had
24 our rating raised. We have been anxious to develop
25 the American market further because we found sometimes
26 when we did need money the Canadian market could not
27 handle our total requirements, and I am speaking of
28 both our Power Commission and the Provincial Board.
29 This was one of the reasons why we felt a separation
30 would be better, and the Power Commission, until the



1 withholding tax, have been going on the American
2 market and we have become fairly well known by a
3 programme developed over a period of years. We would
4 like to feel at some future date that that market,
5 or even at the present time, that that market would
6 continue to be available to us. Have I answered
7 your question?

8 COMMISSIONER BROWN: Yes, I think so.
9 I was wondering to what extent you have also adopted
10 the same sort of programme in Canada among the
11 Canadian institutions?

12 HON. MR. DesBRISAY: We have, but I think
13 we find it a little more difficult to do in Canada,
14 with the number of provinces in the competitive
15 markets; we find it probably a bit more difficult
16 to do in Canada than we would find in New York.

17 COMMISSIONER BROWN: When you do go to the
18 American market you mentioned something about a
19 rule-of-thumb which you use in assessing whether
20 it is a good thing to do or not.

21 HON. MR. DesBRISAY: Well, this of course
22 depends a great deal on the national fiscal policy.
23 We are talking at par and we would not consider anything
24 under that point.

25 COMMISSIONER BROWN: Differential?

26 HON. MR. DesBRISAY: Yes, talking at par --
27 I am talking on the basis of exchange rates remaining
28 the way they were some months ago. Now the situation
29 -- the same thing would apply even over a long term,
30 and we are doing long-term stuff mainly in New York.



1 Over a long term a half a point can mean a great
2 deal to us.

3 COMMISSIONER LEMAN: What specifically
4 would you like to happen to help your access to the
5 American capital market?

6 HON. MR. DesBRISAY: If we had access
7 to the American market now on an equal basis as we
8 have in the Canadian market, we do part of our
9 financing in the United States without interrupting
10 the Canadian market whatsoever for our municipal
11 issues, and we would not be interfering with the
12 other provinces, and we have this withholding tax
13 now which, in effect, practically prevents us from
14 going to the United States.

15 COMMISSIONER BROWN: This only affects
16 certain of the institutions?

17 HON. MR. DesBRISAY: Mainly -- most of the
18 people we deal with.

19 COMMISSIONER BROWN: That would be the
20 pension funds and the savings groups; it would not
21 affect the insurance group?

22 HON. MR. DesBRISAY: That is right.

23 COMMISSIONER BROWN: You do give us some
24 figures about the proportion of your total spending
25 and capital programmes that you are now covering
26 by borrowing, but you don't break down the programmes
27 as between your current spending programmes and your
28 capital programmes: Is the implication that a
29 greater proportion of your capital programmes are
30 now covered by borrowing, or are your programmes



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by borrowing, but you don't break down the breakdown

as between your current spending programs and your

capital programs. Is the proportion that a

greater proportion of your capital programs is



1 growing? You don't give us that picture and I was
2 wondering if you could.

3 HON. MR. DesBRISAY: Our percentage of
4 capital programmes for borrowing is growing all the
5 time.

6 COMMISSIONER BROWN: What is that percentage?

7 HON. MR. DesBRISAY: We don't have the
8 percentage. We could give you an average percentage
9 of the growth in the past number of years.

10 COMMISSIONER BROWN: You are borrowing
11 for half your capital programmes?

12 HON. MR. DesBRISAY: Oh, more than that
13 now. We are probably around 60 per cent at the
14 moment, but we have been below that up until recent
15 years.

16 COMMISSIONER BROWN: How does your borrowing
17 compare on a per capita basis and also in relation
18 to the personal income per capita with other
19 provinces? Can you give us those figures? Most
20 provinces know what their per capita net debt is.
21 Some provinces claim they haven't got any at all.

22 MR. GALLAGHER: There are statistics
23 available which indicate both the net and gross debt
24 on a per capita basis. We have experienced some
25 difficulty in the definitions involved, so that in
26 order to compare our net debt to the capital of the
27 other provinces, the only real source of the data
28 would be the Dominion Bureau of Statistics, and an
29 examination of those will indicate our per capita
30 debt position would be among the highest in Canada --



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position would be among the highest in Canada.



1 not the highest: There is at least one province
2 higher than ours. But this is rather a difficult
3 type of comparison to make because of the differences
4 in concepts as to what constitutes net debt -- what
5 assets you apply against your gross debt.

6 COMMISSIONER BROWN: I know we can get
7 the figures from the Dominion Bureau of Statistics,
8 but I was rather anxious to get them into this same
9 context.

10 MR. GALLAGHER: No, I don't have the
11 publication with me, or the tables which we have
12 used. We could certainly provide them to you.

13 COMMISSIONER BROWN: I was wondering if
14 I could swing from your borrowing to municipal
15 borrowing. I notice that you say that 90 per cent
16 of your municipal issues are sold in New Brunswick.
17 I suspect this is a very high proportion for
18 provinces other than Ontario and Quebec where the
19 institutions are centred. Certainly, I know it
20 would be a very high percentage for a province such
21 as British Columbia, and I wondered if you had
22 considered encouraging the municipalities to go after
23 the institution market, or is it because they can
24 get a better price for their bonds locally?

25 MR. O'BRIEN: They can get a better price
26 locally.

27 COMMISSIONER BROWN: So the institution
28 field is not one that has yet been fallen back on?

29 MR. O'BRIEN: It would cost more.

30 COMMISSIONER BROWN: But it is there -- that



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MR. GALLAGHER: They can get a better price

COMMISSIONER BROWN: On the institution

field is not one that has yet been really back and

MR. GALLAGHER: It would seem so.

COMMISSIONER BROWN:



1 is my point.

2 MR. O'BRIEN: It is there, but it would
3 cost the municipalities a half to three-quarters of
4 one per cent more. There seems to be no demand
5 for our municipalities in the Upper Canada market
6 due to the fact the yield is lower than our bonds
7 down here.

8 COMMISSIONER BROWN: That is the point
9 I am trying to get at, because there is no real point
10 about your financing a capital issue.

11 MR. O'BRIEN: There would be if the
12 provincial government stepped into the picture.

13 COMMISSIONER BROWN: You mentioned generally
14 the provincial government sinking fund moving into
15 the municipal bond market: Do they do this on all
16 issues or just on guarantees?

17 MR. O'BRIEN: Every issue.

18 COMMISSIONER BROWN: To what extent?
19 I did not catch that last phrase.

20 MR. O'BRIEN: We buy at least 5 per cent
21 of every issue that comes out and in some cases as
22 high as 20 per cent. It all depends on the market-
23 ability of these bonds.

24 COMMISSIONER BROWN: What sort of criteria
25 are used?

26 MR. O'BRIEN: Well, there is no set criteria.
27 If, for instance, the City of Moncton made an issue
28 and it was \$1 million and it was selling very slowly
29 and if some of the other municipalities we knew were
30 going to come on the market we would try to pick up

the slack in which case it could amount to about 20 per cent. We do not let anything overhang the

COMMISSIONER BROWN: In terms of your own

provincial bonds and your own provincial sinking

this taking up of municipal bonds affect the avail-

ability of those funds for assisting your own

provincial issues?

MR. O'BRIEN: Well, there would be that

much less that we would have to depend on our own funds

if we had to finance the municipalities.

COMMISSIONER BROWN: I realize it would

be less but how much are these municipal issues

relative to your provincial issues in any one year --

half of the total of the provincial issues?

MR. O'BRIEN: No, they would not run over

COMMISSIONER BROWN: That is the total of

the municipal issues I am talking about.

MR. O'BRIEN: I would say they are about

15 or 20 per cent.

MR. GALLAGHER: We were interested in finding

to find out some of what had happened, that is, the

total size of municipal borrowing. Quite frankly

we have been unable to do so with any kind of

statistical precision. Obviously, the estimate of

90 per cent of municipal borrowing is based somewhat on

the province is only an estimate and is not an exact

that we can support with



1 the slack in which case it could amount to about
2 20 per cent. We do not let anything over-hang the
3 market.

4 COMMISSIONER BROWN: In terms of your own
5 provincial bonds and your own provincial sinking
6 funds and other investment funds to what extent does
7 this taking up of municipal bonds affect the avail-
8 ability of those funds for assisting your own
9 provincial issues?

10 MR. O'BRIEN: Well, there would be that
11 much less that we would have to spend on our own issues
12 if we had to finance the municipalities.

13 COMMISSIONER BROWN: I realize it would
14 be less but how much are these municipal issues
15 relative to your provincial issues in any one year --
16 half of the total of the provincial issues?

17 MR. O'BRIEN: No, they would not run half,
18 sir.

19 COMMISSIONER BROWN: This is the total of
20 the municipal issues I am talking about.

21 MR. O'BRIEN: I would say they run about
22 15 or 20 per cent.

23 MR. GALLAGHER: We were interested in trying
24 to find out some of this for ourselves, that is, the
25 total size of municipal borrowing. Quite frankly
26 we have been unable to do so with any kind of
27 statistical precision. Obviously, our estimate of
28 90 per cent of municipal bonds being absorbed within
29 the province is only an estimate and is not an estimate
30 that we can support with a fine precise calculation.



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COMMISSIONER BROWN: In terms of your own

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to find out some of this for ourselves, that is, the

total size of municipal borrowing. Quite frankly

we have been unable to do so with any kind of

statistical precision. Owing to our estimate of

90 per cent of municipal bonds being paid for by the

province is only an estimate, and is not an estimate

that we can support with a fine precise calculation.



1 They just are not available, the kind of statistics
2 of this type as far as New Brunswick is concerned.
3 So we formed these estimates which are based on
4 some rather detailed discussions with people who are
5 pretty intimately involved in this particular form
6 of financing. This is a sort of concensus rather
7 than an estimate.

8 COMMISSIONER BROWN: But you must have
9 figures on what your total issues are in the year
10 in comparison with municipal issues. The Department
11 of Municipal Affairs would have that information.

12 MR. O'BRIEN: We can obtain that.

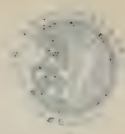
13 COMMISSIONER BROWN: The point I am trying
14 to get at is I get rather a picture that as far as
15 your municipalities are concerned they have no
16 problem in borrowing money and they have a reluctance
17 to go to the central market because of an increased
18 rate there but they could go there because the market
19 has not been tapped yet if it were not for this
20 reluctance to pay higher rates.

21 HON. MR. DesBRISAY: We have made some
22 attempts at investigation in going to the outside
23 markets as recently as during the past year. Some
24 of our people made a visit to some 50 odd people in
25 the central part of Canada who buy municipal issues.

26 THE CHAIRMAN: Up until then it perhaps
27 was not necessary to go further; you were getting
28 along very well with the local sources of supply?

29 HON. MR. DesBRISAY: Yes.

30 THE CHAIRMAN: But now I suppose your capital



James O'Brien

They just are not available, the kind of statistics of this type as far as New Brunswick is concerned.

So we formed these estimates which are based on some rather detailed discussions with people who are pretty intimately involved in this particular form of financing. This is a sort of consensus rather than an estimate.

figures on what your total issues are in the year in comparison with municipal issues. The Department of Municipal Affairs would have that information.

MR. O'BRIEN: We can obtain that.
COMMISSIONER BROWN: The point I am trying

to get at is I get rather a picture that as far as your municipalities are concerned they have no problem in borrowing money and they have a reluctance to go to the central market because of an increase in rate there but they could go there because the market has not been tapped yet if it were not for this reluctance to pay higher rates.

HON. MR. DESBRIAY: We have made some attempts at investigation in going to the outside markets as recently as during the past year. Some of our people made a visit to some 50 cities in the central part of Canada and municipalities feared

THE CHAIRMAN: Up until then in perhaps was not necessary to go further; you were getting along very well with the local sources of supply.

HON. MR. DESBRIAY: Yes.

THE CHAIRMAN: But now I suppose you are capital



1 expenditures are increasing at a greater rate than
2 formerly?

3 HON. MR. DesBRISAY: That is right.

4 COMMISSIONER LEMAN: Mr. DesBrisay in
5 paragraph 18 in the last sentence you say:

6 "The Province has, as well, dealt
7 privately with two and sometimes three
8 syndicates on a highly competitive basis."
9 Were these syndicates comprising some national houses
10 and houses dealing across the country?

11 HON. MR. DesBRISAY: Oh yes, all these
12 syndicates and our borrowing that has been done are
13 with national concerns and the syndicates are comprised,
14 some 90 per cent of the people are national in scope.

15 COMMISSIONER LEMAN: What are their views
16 as to the limitations for New Brunswick in the central
17 market?

18 HON. MR. DesBRISAY: They feel that there
19 is a good demand and we are being quite successful
20 with our allocations and we have done some promotion,
21 shall I say, on New Brunswick bonds in the central
22 market. We have been very fortunate which I think
23 is obvious by the borrowing we have done in the past
24 number of years. We have not been out of line.

25 COMMISSIONER LEMAN: I got from what you
26 have told us already that in the municipal field you
27 feel the yield for municipal bonds sold in the New
28 Brunswick market is generally lower than if you
29 had to market these municipal bonds in the central
30 market?

and a greater rate than

HON. MR. DESBRIAY: That is right.

COMMISSIONER LEWIS: Mr. Desbriay in

paragraph 18 in the last sentence you say:

"The Province has, as well, dealt

privately with two and sometimes three

syndicates on a highly competitive basis

Were these syndicates comprising some national houses

and houses dealing across the country?

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syndicates and our knowledge that has been done are

with national concerns and the syndicates are comprised

some 90 per cent of the people are national in scope.

COMMISSIONER LEWIS: What are their views

as to the limitations for New Brunswick in the cattle

market?

HON. MR. DESBRIAY: They feel that there

is a good demand and we are feeling quite successful

with our promotion and we have done some promotion.

shall I say, or New Brunswick board in the cattle

market. We have been very fortunate when I think

is obvious by the percentage we have done in the past

COMMISSIONER LEWIS: I got from what you

have told us already that in the market that you

lead the yield for national houses sold in the New



1 MR. O'BRIEN: That is right, less cost
2 to the municipality.

3 COMMISSIONER LEMAN: But for provincial bonds,
4 would you say it was the other way around, that you
5 can get a lower yield if you had access to the
6 central market than if you had to sell all your
7 bonds in the New Brunswick area?

8 HON. MR. DesBRISAY: Oh yes, we could not
9 sell our bonds in New Brunswick solely -- in New
10 Brunswick or for that matter in the Atlantic
11 provinces. We would have to depend on the national
12 and central markets.

13 COMMISSIONER LEMAN: That is why I think
14 Mr. Brown was trying to get the proportion of what
15 are your total provincial and municipal borrowings.
16 It seemed a little extraordinary that, as you said,
17 you thought the provincial borrowings would represent
18 only one-quarter or one-fifth of the municipal borrowings
19 in one year?

20 MR. O'BRIEN: It varies from year to year.

21 HON. MR. DesBRISAY: Somebody is getting
22 those figures for us, the percentage and the relation-
23 ship between provincial and municipal borrowings.

24 COMMISSIONER MacKEEN: May I interject
25 here with reference to municipal borrowings? Have
26 your municipal securities any particular advantages
27 in the province in terms of the definition of trustee
28 securities etc.?

29 MR. O'BRIEN: They are all trustee investments,
30 sir.



MR. O'BRIEN: I am not sure if you are not

MR. O'BRIEN: I am not sure if you are not

COMMISSIONER LEWIS: But for provincial bonds

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central market than if you had to sell all your

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those figures for us, the percentage and the relation

ship between provincial and municipal borrowings.

COMMISSIONER MACKENZIE: May I interpose?

There with reference to municipal borrowings? Have

your municipal securities any particular advantages

in the province in terms of the definition of interest

MR. O'BRIEN: They are all treated in the same



1 COMMISSIONER MacKEEN: Was this one of the
2 things that enables them to sell at a better price
3 relevant to the national markets whereas your
4 provincial securities, I take it, sell on a national
5 basis?

6 MR. O'BRIEN: The fact that a person
7 investing his money is more familiar with the bonds
8 that they are buying -- they do not like to buy, I
9 imagine they would not want to buy something they
10 did not know anything about.

11 HON. MR. DesBRISAY: Perhaps I might add
12 we suspect it may be somewhat of a tradition.

13 MR. O'BRIEN: I think it is traditional
14 in the Atlantic provinces when it comes down to that.

15 COMMISSIONER BROWN: You guarantee school
16 district bonds, do you?

17 MR. O'BRIEN: Some.

18 COMMISSIONER BROWN: Just some?

19 MR. O'BRIEN: Yes.

20 COMMISSIONER BROWN: And some municipal bonds?

21 MR. O'BRIEN: There are no municipal bond
22 guarantees, sir.

23 COMMISSIONER BROWN: What is the criteria
24 for guaranteeing a school district issue?

25 MR. O'BRIEN: I believe it is the consolidated
26 districts ---

27 HON. MR. DesBRISAY: It is consolidated for
28 specific school purposes.

29 MR. O'BRIEN: Having a bunch of school
30 districts together and consolidating them.



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HON. MR. DESBRIAY: It is consolidated, for

specific school purposes.

MR. O'BRIEN: Having a bunch of school



1 COMMISSIONER BROWN: But some school
2 districts are not guaranteed?

3 MR. O'BRIEN: That is right, sir.

4 COMMISSIONER BROWN: How about industrial
5 corporations, do you guarantee some of those?

6 HON. MR. DesBRISAY: Yes.

7 COMMISSIONER BROWN: What is the criteria
8 there?

9 HON. MR. DesBRISAY: Primarily for economic
10 development. If the bond market is not satisfactory
11 to the potential borrower and he can borrow at an
12 obviously lower rate of interest by provincial
13 guarantee, the government has on occasion guaranteed
14 corporate bonds with a view to economic development
15 within specific areas of the province.

16 COMMISSIONER BROWN: Have you found that
17 this affects your own credit rating at all?

18 MR. O'BRIEN: Not as a rule.

19 HON. MR. DesBRISAY: I think it can be
20 carried to extremes. We do not do it to any great
21 extent. On the over-all issues it is very small
22 percentage-wise. While there are a number of them
23 they are relatively small in size.

24 COMMISSIONER BROWN: I gather you have not
25 gone into the parity bond market yet?

26 HON. MR. DesBRISAY: No.

27 COMMISSIONER BROWN: What are your thoughts
28 on this?

29 HON. MR. DesBRISAY: I will ask Mr. Gallagher
30 to answer that.



districts are not guaranteed?

MR. O'BRIEN: That is right, sir.

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gone into the parity bond market yet?

on this?

HON. MR. DEBRISAY: I will ask Mr. Gallagher

to answer that.



1 MR. GALLAGHER: I believe Mr. O'Brien will
2 agree that we have essentially a couple of points on
3 this type of financing that we would like to see
4 a bit clearer before we move into the field. We have
5 been watching very carefully the experience of a
6 couple of the western provinces that have been using
7 this type of financing. They have been getting some
8 rather interesting results especially in terms of the
9 amount of money they have been able to get out of
10 this market and we are a bit concerned about interest
11 rate redemptions. These might vary from year to year
12 and we feel our policy to meet such redemptions might
13 be strained. Until we have some clearer picture
14 this is one of the major factors in keeping us out
15 of this type of financing.

16 The other factor is, to our mind, related
17 to the effect this type of financing by the province
18 would have on local municipalities and if it would
19 make it more difficult for the municipalities to
20 finance. I think essentially these are the two
21 important considerations.

22 The Minister just mentioned the federal
23 government have developed the policy of staying out
24 of the long-term market and leaving the short-term
25 market to the provinces and I think we are possibly
26 inclined to respect this wish.

27 COMMISSIONER BROWN: You mean to leave the
28 long-term to the province?

29 MR. O'BRIEN: Yes, they are taking the short.

30 COMMISSIONER BROWN: You said the short.

MR. GALLAGHER: I believe Mr. O'Brien will

agree that we have essentially a couple of points on

this type of financing that we would like to see

a bit clearer before we move into the field. We have

been watching very carefully the experience of a

couple of the western provinces that have been using

rather interesting results especially in terms of the

rate market and we are a bit concerned about interest

rate reductions. There might well from year to year

and we feel our policy to meet such reductions might

be attained. Until we have some clearer picture

this is one of the major factors in keeping us out

of this type of financing.

The other factor is, in our mind, related

to the fact this type of financing is provided

would have on local municipalities and it would

make it more difficult for the municipalities to

finance. I think generally there are two two

important considerations.

The Minister just mentioned the federal

government has developed the policy of paying out

of the long-term market and leaving the short-term

market to the provinces and I think we are probably

inclined to respect this wish.

COMMISSIONER BROWN: You want to leave the

long-term to the provinces?

MR. O'BRIEN: Yes, that is what the group



Nethercut & Young

Toronto, Ontario

- 1994 -

1 MR. GALLAGHER: I am sorry, we are inclined
2 to stay out of the short-term market and respect this
3 wish on their part.

4 The ratio of the municipal annual borrowings
5 to both provincial and power commission added together
6 would be in the order of about one to three. In the
7 total in recent years this would be around \$10
8 million to \$12 million for the municipalities and
9 approximately something around \$30 million for the
10 province and the power commission.

11 COMMISSIONER LEMAN: Did you ever talk
12 with any federal authorities about whether it would
13 bother the federal government at all if you went into
14 the short-term market? You seem to have the
15 impression that you have something fairly holy to
16 respect and it is a question of them being in the short
17 and you in the long?

18 HON. MR. DesBRISAY: That is one of the
19 minor reasons we have not gone into it.

20 MR. GALLAGHER: It is third in order but I
21 find the federal government are in a position to
22 enforce the holiness of their wishes.

23 COMMISSIONER LEMAN: But do you think they
24 would mind at all? Did they ever express this thought
25 to you?

26 MR. GALLAGHER: I have had this thought
27 expressed by officials, possibly officials expressing
28 in an unofficial capacity but this seems to be the
29 feeling, that they have, that the federal government
30 stays out of the long-term market and that the provinces



1 should in some way reciprocate. I do not think they
2 would be disturbed if we borrowed \$5 million or \$6
3 million on a short-term. It should not bother
4 them particularly but if Ontario established this
5 policy it might well affect them.

6 COMMISSIONER LEMAN: Is there something
7 of a parallel here? You see, if the federal
8 government chooses to exploit one market and are
9 having the provinces exploit another market which
10 I gather is in some way the same vis-a-vis your
11 municipalities, you are trying to stay out of their
12 markets if they have a good market and you would try
13 not to spoil that market for them by trying to
14 get your money elsewhere if possible, is that it?

15 MR. GALLAGHER: I think that would be a fair
16 statement.

17 THE HON. MR. DesBRISAY: To some extent.

18 COMMISSIONER GIBSON: Do Canada Savings
19 Bonds cut into the market for municipal securities
20 in New Brunswick? I am thinking of your desire to
21 not affect this market by trying to sell parity
22 bonds there. Have the Canada Savings Bonds cut
23 into this market?

24 MR. O'BRIEN: They have, yes.

25 MR. GALLAGHER: This is obviously one of
26 the big incentives for the province to get into the
27 field to see if it would not be possible to divert
28 some of the flow that now goes into federal savings
29 bonds into our own.

30 COMMISSIONER MacKEEN: Turning to Appendix A,



1 page 52, where you go into the New Brunswick Electric
2 Power Commission quite thoroughly, from that you
3 have issued money to the extent of \$65 million which
4 was turned over to them. Then, there is the Swiss
5 franc loan which I presume would produce about
6 \$5 million?

7 MR. GALLAGHER: \$4.43 million.

8 COMMISSIONER MacKEEN: And \$40 million of
9 their own bonds which has been the recent policy
10 or a total of approximately \$109 million. Have you
11 taken advantage of the federal government's offer
12 to make advances for electric power production?
13 What percentage would that be of the total shown here,
14 the \$40 million?

15 MR. GALLAGHER: I am not certain of the
16 precise percentage it would be to date but rather
17 a small proportion because all we have financed under
18 the federal scheme are these transmission lines
19 primarily but this percentage will grow as we extend.
20 We will be financing our Grand Lake thermal plant.

21 COMMISSIONER MacKEEN: That will be thermal
22 rather than hydro?

23 MR. GALLAGHER: It will be coal using thermal.

24 COMMISSIONER MacKEEN: The Saint John terminal,
25 you did not finance any of that federally?

26 MR. GALLAGHER: No, we were not able to do
27 this. This was not possible once the decision was
28 made to instal oil burning.

29 COMMISSIONER MacKEEN: It is only for coal,
30 that is right.



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 Power Commission quite thoroughly, from that you
 have loaned money to the extent of \$65 million which
 was turned over to them. Then, there is the Swiss
 franc loan which I presume would produce about
 \$5 million?

COMMISSIONER MACKENZIE: And \$40 million of

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 taken advantage of the federal government's offer
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COMMISSIONER MACKENZIE: The John D. Dingeldy?

you did not finance any of that recently?

MR. GALLAGHER: No, we were not able to do

this. This was not possible once the decision was
 made to thermal oil burning.

COMMISSIONER MACKENZIE: Is it only for coal?

that is right.



1 MR. GALLAGHER: Right.

2 COMMISSIONER MacKEEN: Was the Swiss loan
3 on a more favourable basis than you could have got
4 it in the United States or Canada?

5 MR. O'BRIEN: At the time the loan was
6 made, yes sir.

7 COMMISSIONER MacKEEN: I was just a little
8 curious about that. You got an appreciably better
9 rate?

10 MR. O'BRIEN: About one-half of one per
11 cent.

12 COMMISSIONER MacKEEN: When you guarantee
13 a school issue does that go out on approximately the
14 same rate as the province's own bonds, a quarter
15 or half a point higher rate or something of that
16 order? I notice a lot of items there.

17 MR. O'BRIEN: About a quarter of one
18 per cent.

19 COMMISSIONER MacKEEN: Difference?

20 MR. O'BRIEN: Yes.

21 COMMISSIONER MacKEEN: You do not do that
22 in the case of every school?

23 MR. O'BRIEN: No.

24 COMMISSIONER MacKEEN: Just where the
25 school is in difficulties or finds it difficult to
26 finance or how do you differentiate?

27 MR. O'BRIEN: There are just certain school
28 districts that require it and that it is applicable
29 to.

30 COMMISSIONER MacKEEN: Well, they probably



on a more favourable basis than you could have got
it in the United States or Canada?

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COMMISSIONER MACKENZIE: I was just a little
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COMMISSIONER MACKENZIE: When you guarantee
a school issue does that go out on any mortgage the
same rate as the province's own bonds, a good deal
or half a point higher rate or something of that
order? I notice a lot of items there.

MR. O'BRIEN: About a quarter of one

per cent.

MR. O'BRIEN: Yes.

COMMISSIONER MACKENZIE: You do not do that

in the case of every school?

COMMISSIONER MACKENZIE: Just some of them.

school is in difficulties or finds it difficult

finance or how do you differentiate?

MR. O'BRIEN: There are just certain of them

districts that require it and that is all.



1 get a better rate on that basis than they would if
2 they borrowed independently, wouldn't they?

3 MR. O'BRIEN: Oh yes. It is where there
4 is a consolidation of school districts and in the
5 majority of cases it is poor districts going in
6 with good districts and working out ---

7 COMMISSIONER MacKEEN: Something just
8 under \$10 million?

9 MR. O'BRIEN: Oh yes.

10 COMMISSIONER BROWN: I gather that high
11 interest rates have not stopped your borrowing? It
12 means you have had to pay excessively in interest?

13 HON. MR. DesBRISAY: Yes, our timing has
14 been controlled by interest rates.

15 COMMISSIONER MacKEEN: Have you delayed
16 projects because of high interest rates?

17 HON. MR. DesBRISAY: There are certain
18 areas, yes, where we have retrenched because of high
19 interest rates, or postponed the programme. But, the
20 answer to the first question is that we are using
21 considerably chartered banks as an overdraft position,
22 and we use this continually.

23 COMMISSIONER BROWN: In the hope of financing
24 ---

25 HON. MR. DesBRISAY: In the hope of lower
26 interest rates.

27 COMMISSIONER BROWN: Have you at any time
28 changed from capital intensive type of development
29 for your electric power to a less capital intensive
30 type because of high interest rates?

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they borrowed independently, wouldn't they?

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interest rates, or postponed the programs. But, the

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considerably shorter terms as an overall result,

and we use this continually.

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HON. MR. DEARBAY: In the hope of lower

interest rates.

COMMISSIONER BROWN: Have you at any time

changed from capital intensive type of development

for your electric power to a less capital intensive



1 HON. MR. DesBRISAY: Not during my time.

2 COMMISSIONER LEMAN: How high is "excessive"?

3 HON. MR. DesBRISAY: That is a good question.

4 THE CHAIRMAN: I am just noticing, Mr.
5 Treasurer, at paragraph 30 in your brief you say --
6 and this is just the last part of the paragraph:

7 "It is very easy to conclude that
8 funds are always available if you are
9 willing to pay the cost; however, in
10 the period following the Conversion Loan
11 operation the province, after consultation
12 with investment people, formed the judgment
13 that the Canadian market would rather not
14 meet its needs. We were not any happier,
15 because we knew that an issue at 8 or 10
16 per cent would be acceptable."

17 I was wondering what comments you might have to make
18 about that. Could you expand on that a little bit?
19 8 or 10 per cent -- what would that relate to?

20 HON. MR. DesBRISAY: At that time it was
21 felt that an issue could be placed on the market at
22 a very high interest rate.

23 THE CHAIRMAN: Yes.

24 HON. MR. DesBRISAY: And I think the figure
25 of 8 or 10 per cent is used to give an indication.

26 THE CHAIRMAN: But would you seriously
27 consider that under the circumstances?

28 HON. MR. DesBRISAY: No, we would not.

29 THE CHAIRMAN: I wasn't sure what the
30 implications were.

HON. MR. DESBRISSAY: Not during my time.

COMMISSIONER LEVIN: How high is "excessive"?

HON. MR. DESBRISSAY: That is a good question.

THE CHAIRMAN: I am just noticing, Mr.

Treasurer, at paragraph 30 in your paper you say --

and this is just the last part of the paragraph:

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willing to pay the cost; however, in

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with investment people, formed the judgment

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HON. MR. DESBRISSAY: At that time it was

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a very high interest rate.

THE CHAIRMAN: Now,

HON. MR. DESBRISSAY: And I think the issue

of 8 or 10 per cent is used to give an indication.

THE CHAIRMAN: But would you really

consider that under the circumstances?

HON. MR. DESBRISSAY: No, we would not.

THE CHAIRMAN: I wasn't sure what you

intended to say.



1 COMMISSIONER MACKINTOSH: I think the
2 sentence would be clearer if it read, "The fact we
3 could issue at 8 or 10 per cent did not make us
4 any happier."

5 THE CHAIRMAN: Yes, I thought it would be
6 something of that kind, because I didn't imagine
7 you were seriously considering borrowing at that
8 rate.

9 COMMISSIONER LEMAN: You are referring to
10 a period of what there -- six months?

11 HON. MR. DesBRISAY: Six or eight months.

12 COMMISSIONER LEMAN: This was a rather
13 unusual event: The Conversion Loan period has not
14 been typical, has it? In other words, New Brunswick
15 was not alone in deciding whether it was better to
16 stay out at that time?

17 MR. O'BRIEN: No, no, we were not.

18 COMMISSIONER GIBSON: Have you ever had
19 circumstances in modern times like that particular
20 period where you could only borrow money at what
21 you regard as prohibitive rates?

22 MR. O'BRIEN: Yes.

23 COMMISSIONER GIBSON: In other circumstances
24 than that?

25 HON. MR. DesBRISAY: We had some recently.

26 COMMISSIONER GIBSON: That would be the
27 period in 1959?

28 HON. MR. DesBRISAY: Yes.

29 COMMISSIONER GIBSON: Was that comparable
30 to the period of conversion in the difficulty of



COMMISSIONER MACKINTOSH: I think the sentence would be clearer if it read, "The last we could issue at 8 or 10 per cent did not make us any happier."

THE CHAIRMAN: Yes. I thought it would be something of that kind, because I didn't imagine you were seriously considering borrowing at that

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COMMISSIONER LEWIS: That was a rather unusual event: The conversion loan period has not been typical, has it? In other words, New Republic was not alone in deciding whether it was better to stay out at that time?

MR. O'BRIEN: No, no, we were not.

COMMISSIONER GIBSON: Have you ever had circumstances in which times like that particular period where you could only borrow money at what you regard as prohibitive rates?

COMMISSIONER GIBSON: In other circumstances?

HON. MR. DEARBAY: We had some recently.

COMMISSIONER GIBSON: That would be the

period in 1909?

HON. MR. DEARBAY: Yes.



1 borrowing?

2 MR. O'BRIEN: Yes.

3 COMMISSIONER GIBSON: How long did that
4 period last?

5 MR. O'BRIEN: I would say very nearly a
6 year.

7 COMMISSIONER GIBSON: So you have had two
8 periods in the postwar period at least where you
9 have found it extremely difficult to borrow on the
10 Canadian market?

11 MR. O'BRIEN: Very, very hard, yes.

12 COMMISSIONER GIBSON: During these periods
13 have your programmes been cut back or deferred
14 substantially -- your provincial programmes?

15 MR. O'BRIEN: They were cut back.

16 COMMISSIONER GIBSON: Cut back or deferred,
17 or both?

18 MR. O'BRIEN: Both.

19 COMMISSIONER GIBSON: What would be the
20 main phenomenon that this great difficulty of getting
21 money would cause -- a deferment or cutting certain
22 things right out?

23 MR. O'BRIEN: They would defer them with
24 the anticipation of the interest rate coming down.

25 COMMISSIONER GIBSON: But if you defer this
26 kind of expenditure do you ever catch up, or does
27 it just mean everything is moved back?

28 HON. MR. DesBRISAY: It depends on the
29 programme being deferred. Certain programmes can be
30 picked up and others would probably take many years



1 borrowing?

2
3 COMMISSIONER GIBSON: How long did that

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5 MR. O'BRIEN: I would say very nearly a

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7 COMMISSIONER GIBSON: So you have had two

8 periods in the postwar period as far as where you
9 have found it extremely difficult to borrow on the

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13 have your programme been cut back or deferred
14 substantially -- your provincial programme?

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16 COMMISSIONER GIBSON: But back or deferred,

17 or both?

18 MR. O'BRIEN: Both.

19 COMMISSIONER GIBSON: What would be the

20 main phenomenon that this growth in terms of getting

21 money would cause -- a deformation or something certain

22 things right out?

23 MR. O'BRIEN: They would gather them with

24 the anticipation of the interest rate coming down.

25 COMMISSIONER GIBSON: But it is very hard this

26 kind of expenditure do you ever build up in your

27 it just want everything is moved over?

28 Now, MR. DEARIS: It depends on the

29 programme being deferred. Details programme can be

30



1 to catch up, and never catch up probably. But on
2 the other hand, the ones, I believe, that were
3 deferred could be picked up.

4 COMMISSIONER GIBSON: What you are suggesting
5 here is that you have had two particularly difficult
6 financial periods when tight money has had an
7 effect to some extent on spending programmes. Have
8 there been any other periods when those fairly high
9 interest rates, rather than difficulty in raising
10 money, have checked capital financing programmes?

11 MR. O'BRIEN: At the present time we would
12 hesitate about going on the market. One does not
13 know. There is no stabilization in the interest rates
14 on bonds now.

15 HON. MR. DesBRISAY: We have experienced
16 it to a minor degree over the last couple of years --
17 sporadic periods.

18 COMMISSIONER GIBSON: Would you think your
19 experiences any different from that of most other
20 provinces, let us say?

21 HON. MR. DesBRISAY: Probably a little more
22 extreme, yes. By looking at bond sales and the
23 prices, ours has been a little more extreme at this
24 end of the country.

25 COMMISSIONER GIBSON: A little more variation
26 in market conditions?

27 HON. MR. DesBRISAY: Yes.

28 COMMISSIONER GIBSON: And this is basically
29 why you put so much emphasis in your brief on the
30 importance of the American market, so you have some

to catch up, and never catch up probably. But on

the other hand, the ones, I believe, that were

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HON. MR. DEARLEIGH: We have experienced

it to a minor degree over the last couple of years --

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provinces, let us say?

HON. MR. DEARLEIGH: Roughly a little more

extreme, yes. If looking at coal sales and the

prices, one has been a little more extreme at the

end of the country.

COMMISSIONER GIBSON: A little more, wouldn't

in market conditions?

HON. MR. DEARLEIGH: Yes.

COMMISSIONER GIBSON: And that is why

why you put so much emphasis in your speech on the



1 kind of safety valve?

2 HON. MR. DesBRISAY: That is correct.

3 COMMISSIONER LEMAN: Is it possible to get
4 from you either some precise statistics or just your
5 opinion, maybe, as to what would happen to the
6 municipalities during those same periods? You say
7 they are exploiting mostly the New Brunswick market,
8 and it is fairly isolated, and they do get lower
9 yields than they would get elsewhere. What happened
10 to them during these periods when money was tight?

11 HON. MR. DesBRISAY: In the most recent
12 periods, I was referring to the ones as major as the
13 ones previously referred to. The same thing is going
14 to happen in New Brunswick. I believe it is correct
15 to say there have been cases where municipalities
16 have deferred programmes and deferred going into the
17 market. We don't know the extent of this. This is
18 an opinion.

19 COMMISSIONER LEMAN: But you see, what I would
20 like to elicit from you is this: You seem to argue
21 here in your brief for some insulation from restrictive
22 monetary policies applied nationally, but if New
23 Brunswick as a province wants to borrow on the national
24 capital, it is impossible to insulate you from that,
25 isn't it? It may be possible to try and insulate you
26 from such restrictive monetary measures if New Brunswick
27 itself felt it could isolate itself. Even in periods
28 of high interest rates, say in the central provinces,
29 you can still have reasonably lower interest rates
30 in New Brunswick, but not if you want to exploit the

HON. MR. DEARBORN: That is correct.

COMMISSIONER LEWIS: Is it possible to get

from you either some precise statistics or just your

opinion, maybe, as to what really happened to the

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COMMISSIONER LEWIS: But you see, what I would

like to elicit from you is this: You need to explain

here in your brief how some translation from restrictive

monetary policies applied nationally, and all that

Brundage as a province wants to follow on the national

capital. It is impossible to isolate from this.

Isn't it? It may be possible to try and isolate it from

from such restrictive monetary measures in the United States

itself, but it could isolate itself. And in the case

of high interest rates, say in the central provinces,

you can still have reasonably lower interest rates

Brundage, but not if you want to exploit the



1 national capital market.

2 MR. GALLAGHER: I think there would be
3 some difference between insulation from the effects
4 of a restrictive monetary policy and insulation from
5 the policy itself. I think what we had in mind,
6 in the government submission, was that as a short
7 term, as an interim measure, because of the rather
8 extreme impact of national policies and credit
9 restraints, that it would seem appropriate to
10 develop some form of selective instruments which
11 would enable, say, the province to continue to finance
12 its requirements. This could be done in a number
13 of ways, obviously, but what we had in mind, for
14 one case, is that the federal government would open
15 up a number of federal government accounts to the
16 provinces and municipalities who were experiencing
17 restraint. This would be a form of monetary policy,
18 but would be exercised through the government of
19 Canada rather than through the bank.

20 COMMISSIONER GIBSON: On this question of
21 the effect of interest rates and to what degree they
22 cause deferment of spending programmes, could you
23 give us any estimate of how much the provincial
24 government's spending programmes -- what proportion
25 of the provincial government's capital programmes
26 were deferred in the two periods of difficult
27 financing to which you particularly refer? Would it
28 be one-quarter of the programme or one-third?

29 HON. MR. DesBRISAY: I must point out I only
30 came into this office in 1960, and I think the two



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COMMISSIONER CLARK: On the question of
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were deferred in the two periods of difficulty
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be one-quarter of the programme or one-third?
NOW, MR. DEARNEY: I must point out I only
came into this office in 1960, and I think the two



1 periods we are talking about are before that.

2 MR. O'BRIEN: They had to neglect the
3 secondary roads, because we were giving assistance
4 for the Trans Canada Highway. Naturally, they were
5 spending the money on that, and the Trans Canada
6 Highway -- because they were only paying 25, and
7 in some cases only 10 per cent -- and it neglected
8 their secondary roads, and that cost is coming back
9 onto us now.

10 COMMISSIONER GIBSON: So, the tendency
11 was to go ahead with things where there was a
12 substantial outside sharing?

13 MR. O'BRIEN: Substantial outside sharing.

14 COMMISSIONER GIBSON: Yes, and cut back
15 the things you had to pay entirely yourselves.

16 MR. O'BRIEN: Yes.

17 HON. MR. DesBRISAY: On some portions of
18 the Trans Canada Highway there was 90 per cent
19 federal government participation.

20 THE CHAIRMAN: Were you able to step up
21 your Trans Canada programme at that time?

22 MR. O'BRIEN: Yes, we were.

23 THE CHAIRMAN: You stepped up your Trans
24 Canada programme and cut down the other?

25 MR. O'BRIEN: Cut down on the secondary --
26 what we call secondary permanent roads.

27 THE CHAIRMAN: So your over-all programme
28 was not affected too much.

29 MR. O'BRIEN: They neglected it and now
30 it is going to cost a lot of money to put it back into



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the things you had to pay entirely yourselves.

MR. O'BRIEN: Yes.

HON. MR. DEAN: On some portions of

the Trans Canada Highway there was 50 per cent

federal government participation.

THE CHAIRMAN: Were you able to step up

your Trans Canada programme at that time?

MR. O'BRIEN: Yes, we were.

THE CHAIRMAN: You stepped up your Trans

Canada programme and cut down on other

MR. O'BRIEN: And down on the secondary --

what we call secondary provincial roads.

THE CHAIRMAN: So your over-all programme

was not altered too much.

MR. O'BRIEN: That neglected it and now

is going to cost a lot of money to put it back



1 shape again.

2 THE CHAIRMAN: But you had the benefit
3 of your Trans Canada programme in the meantime.

4 HON. MR. DesBRISAY: From the employment
5 point of view, yes, but from an economic development
6 point of view we are now reaching into some
7 industrial areas and we have to provide roads other
8 than under the roads to resources programme.

9 THE CHAIRMAN: And the expense falls entirely
10 upon the province?

11 HON. MR. DesBRISAY: 100 per cent.

12 COMMISSIONER GIBSON: How about the effect
13 on the municipalities? You implied, Mr. O'Brien,
14 the municipalities had to cut back quite a little
15 when money was tight, and would this involve a
16 sizeable part of their capital programmes?

17 MR. O'BRIEN: That I couldn't answer,
18 but I have every reason to believe they did, and
19 now they take advantage of this winter works
20 programme.

21 COMMISSIONER GIBSON: I get the impression
22 in reading your brief that you believe, although you
23 don't develop it very far, that the municipal
24 capital expenditures are more sensitive to interest
25 changes than the provincial expenditures. Why is
26 this? Is it because they are smaller, because
27 the taxpayers are more sensitive to changes in rates?
28 Would you elaborate on this a little bit?

29 MR. GALLAGHER: First of all, this was a
30 proper impression which you developed, that the

shape again.

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industrial areas and we have to provide roads other

than under the roads to transport programme.

THE CHAIRMAN: And the expense falls entirely

upon the province?

HON. MR. DOBRYNIA: 100 per cent.

COMMISSIONER CLINOW: How about the effect

on the municipalities? You implied, Mr. O'Brien,

the municipalities had to cut back quite a little

when money was tight, and would this involve a

reduction of their capital programmes?

MR. O'BRIEN: That I couldn't answer.

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in reading your brief that you believe, although you

don't develop it very far, that the municipal

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ask this? Is it because they are smaller, because

the taxpayers are more sensitive to changes in rates?

Would you elaborate on this a little bit?

MR. GALLAGHER: First of all, this was a

proper impression which was developed, that the



1 municipalities are more sensitive. This goes back
2 to a number of cases during the latest period of
3 restriction. There are some municipalities who
4 were unable in their view to obtain the kind of
5 money they wanted for a particular programme -- to
6 instal a sewage system or something of this nature.
7 In some cases they decided, rather than proceed,
8 they would defer the programme. At the municipal
9 level, particularly in the small municipalities,
10 rather a substantial increase in interest charges
11 can affect the tax rate almost immediately, and
12 some municipal councils are reluctant to have this
13 happen.

14 COMMISSIONER GIBSON: You think there is
15 real response when this happens?

16 MR. GALLAGHER: I feel this is based on
17 the experience of some of the municipalities a couple
18 of years back. Again, there are other factors:
19 The market for their financing is extremely narrow.
20 It is pretty much limited to the province, so they
21 don't have the benefit of the broader market.

22 COMMISSIONER GIBSON: This may not be a
23 disadvantage in a period of real restraint, because
24 I get the impression the local market is perhaps
25 less variable than the national market -- indeed,
26 from some of the things you have said.

27 MR. GALLAGHER: As we have indicated, that
28 is a choice in terms of how they invest their money.
29 A lot of the small investors in New Brunswick would
30 invest on the basis of reasons other than economic



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MR. GALLAGHER: As we have indicated, that

is a choice in terms of how they invest their money.

A lot of the small investors in New Brunswick would

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1 reasons. There would be some tradition involved.
2 The degree to which you can pursue this line of
3 thinking in periods of very severe credit restraint --
4 I would not have a conclusion on that.

5 HON. MR. DesBRISAY: Mr. Chairman, if you
6 would like to pursue this municipal financing further,
7 I would ask the Deputy Minister of Municipal Affairs
8 to come.

9 THE CHAIRMAN: It would be helpful. In
10 a few moments we will have a recess, and after that
11 he may be available.

12 HON. MR. DesBRISAY: Yes.

13 COMMISSIONER BROWN: Could I ask a slightly
14 hypothetical question: In your brief you ask for
15 closer co-operation between the dominion and
16 provincial authorities on this estimate of future
17 monetary policy and so forth. What is your reaction
18 going to be if as a result of such consultation
19 you find out that the estimate of the central
20 authorities is that monetary restraint is going to
21 have to be practiced and interest rates are going to
22 go up? What are you going to do when you are told
23 this?

24 HON. MR. DesBRISAY: This would be inevitable.
25 If it is inevitable there is not much we could do.
26 I think for the first time last year at a premiers'
27 conference, we now have some co-ordination amongst
28 the provinces: The premier is responsible to notify
29 the others what their borrowing is going to be during
30 the year and their approximate timing. We have it
inter-provincially now, and we find it very effective.

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1 We do know now when the other provinces are going
2 on to the market, and this is very important, and
3 this was developed as the result of a series of
4 premiers' conferences. We think something along these
5 lines may be developed on a federal basis. We don't
6 know when the monetary policy of the federal
7 government -- when they are going to go out on the
8 market. We have no indication. We might clash
9 sometimes when there may be no need of it, and it
10 could very well be avoided with advance information.

11 COMMISSIONER BROWN: In this provincial
12 co-operation that is now going on, do you find this
13 has any tendency for people to try to get ahead of
14 other people?

15 HON. MR. DesBRISAY: It has not worked
16 that way at all. There has been a great spirit of
17 co-operation, because everybody realizes they are
18 in the same boat and we must help, and we feel we
19 would be very foolish to do that. We know a certain
20 province is going on, and we would try and stay off
21 the market for that period of time, and we feel this
22 works both ways.

23 COMMISSIONER MacKEEN: At one period of
24 very tight money prior to 1932-1933, the provincial
25 governments and the municipalities -- certainly the
26 larger ones -- all had requirements. This was before
27 the Bank of Canada was formed, of course, and the
28 Department of Finance set up a committee known as
29 the Orderly Market Board, and the function of that
30 board was to canvass all the provinces finding out



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1 what their requirements would be over a 12 month
2 period, and then bring out issues in rotation as the
3 market absorbed them. Is that something of the idea
4 you have in mind?

5 HON. MR. DesBRISAY: Very much so.

6 COMMISSIONER MacKEEN: It worked for about
7 two years and then due to the fact that it did not
8 comprise all the investment houses, the ones that
9 were on the outside complained they were not getting
10 their proper share and it broke up, that the need of
11 it was more or less past and some of the would-be
12 borrowers thought they were being charged too high
13 rates by this one body that governed the marketing
14 of bonds. So that there are difficulties attached
15 to it but it might be worthy of consideration. I
16 think that is probably what you are thinking of in
17 your brief?

18 HON. MR. DesBRISAY: Yes.

19 THE CHAIRMAN: We will now adjourn for about
20 10 minutes.

21 (At this point a short recess was taken).

22 --- Upon resuming.

23 HON. MR. DesBRISAY: Mr. Chairman and
24 gentlemen, Mr. Allen, the Deputy Minister of Municipal
25 Affairs, is with us if you would like to have him
26 answer some questions.

27 COMMISSIONER GIBSON: Perhaps, Mr. Chairman,
28 I might pick this up. I was asking Mr. DesBrisay
29 and Mr. O'Brien about how far tight money or difficult
30 credit conditions affected the capital spending



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HON. MR. DEERINAY: Mr. Chairman and

Gentlemen, Mr. Allen, the Deputy Minister of Finance,

Attends, in with us if you would like to have him

and Mr. O'Brien about how they tight money or difficult

credit conditions affected the capital market



1 programme of the municipalities. We were first
2 asking about the provincial government and then the
3 municipalities. It was suggested that the
4 municipalities were perhaps more affected by tight
5 credit conditions, higher interest rates, the
6 difficulty of raising money than even the province
7 and what we were trying to determine was how it
8 affected the municipalities and to what extent and
9 in what sort of circumstances.

10 MR. ALLEN: It is very difficult to give
11 an answer to what extent. I think most of us are
12 quite convinced in our own minds that what has been
13 said is very, very true; it does adversely affect
14 the municipal investments, more so likely than the
15 province. We regret that we do not have accurate
16 statistics to back up our thinking on it.

17 Right now, of course, the bond market being
18 very good, there does not seem to be any great
19 disadvantage at all but a year or a year and a half
20 ago some of the municipalities were not borrowing when
21 they perhaps should have been borrowing to put in
22 very badly needed services such as water and sewers
23 and these things have been delayed for a couple of
24 years to the disadvantage of the municipalities.

25 COMMISSIONER GIBSON: And you would say
26 the tight conditions in 1958 and 1959 led to delays
27 in capital needs for as much as a couple of years?

28 MR. ALLEN: I think it has without doubt.

29 COMMISSIONER GIBSON: Would this affect
30 a sizeable portion of the municipal works that were



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COMMISSIONER GIBSON: And you would say the tight conditions in 1958 and 1959 had no relation in capital needs for as much as a couple of years? MR. ALLEN: I think it has without doubt. COMMISSIONER GIBSON: Would this answer a sizeable portion of the municipal works programme



1 planned at that time?

2 MR. ALLEN: It has affected mostly our
3 cities and to a lesser extent perhaps our towns.
4 I do not think it has had any great adverse effect
5 upon the school boards, particularly, but it certainly
6 has for straight municipal services in our cities
7 and to a lesser extent in our towns.

8 COMMISSIONER GIBSON: Would you ever catch
9 up with that or would the whole programme fall back
10 a year or two?

11 MR. ALLEN: I think there is a very strong
12 tendency to fall back to some extent.

13 COMMISSIONER GIBSON: So the effect of tight
14 credit conditions is actually to permanently reduce
15 spending; in other words, you do not make that up
16 but you carry on?

17 MR. ALLEN: It is bound to be affected
18 permanently.

19 COMMISSIONER GIBSON: We have been talking
20 about the extremely difficult credit conditions, the
21 tight period in 1959 and the period after the
22 Conversion Loan. What about the present situation,
23 for example? Is the present structure of interest
24 rates to any extent impeding municipal improvements?

25 MR. ALLEN: No, I would say definitely not
26 at the present time, definitely not. Some of the
27 smaller municipalities are using this year to catch
28 up but I still think there is bound to be a period
29 of delay regardless because our municipalities are
30 very conscious of spending money. It all goes back



I do not think it has had any great adverse effect upon the school boards, particularly, but it certainly has for straight municipal services in our cities and to a lesser extent in our towns.

COMMISSIONER GIBSON: Would you ever catch up with that or would the whole programme fall back a year or two?

MR. ALLEN: I think there is a very strong tendency to fall back to some extent.

COMMISSIONER GIBSON: So the effect of right credit conditions is actually to permanently reduce expenditures in other areas. You do not mean that up but you cannot only?

MR. ALLEN: It is bound to be retarded permanently.

COMMISSIONER GIBSON: We have been talking about the extremely difficult credit conditions, the tight period in 1932 and the period after the Conversion Bond. What about the present situation, for example? Is the present situation of interest rates to any extent hindering municipal improvements?

MR. ALLEN: No, I would say definitely not at the present time definitely not. Some of the smaller municipalities are having some trouble to catch up but I still think there is room to do a period of delay regardless because our municipalities are conscious of spending money. It all goes back



1 to the taxpayer.

2 COMMISSIONER GIBSON: When interest rates
3 are high: does this produce substantial resistance
4 on the part of the local taxpayers; in other
5 words, how does this business of higher interest
6 rates work in cutting back programmes?

7 MR. ALLEN: Well, the municipalities just
8 will not borrow.

9 COMMISSIONER GIBSON: They just do not
10 borrow. Why don't they borrow?

11 MR. ALLEN: Because they feel that it is
12 costing too much. They are always hoping for a brighter
13 day ahead when they can borrow money at better rates.

14 COMMISSIONER GIBSON: And do they feel it
15 is costing too much because they do not want to
16 present a higher tax bill to their citizens or is
17 it just that it is costing too much?

18 MR. ALLEN: They feel it is costing too
19 much but they also do not want to present a larger
20 tax bill to the people. I noted one municipality
21 last week who are doing their level best to put a small
22 issue of bonds on the market and yet they are determined
23 they are going to do their best to keep the same rate
24 of taxation they had last year and their assessment
25 is so low that an increase of \$1,000 would put their
26 tax rate up by about 10 cents. This they feel they
27 cannot do.

28 COMMISSIONER BROWN: Who makes the decision?
29 Is it the council who makes the decision?

30 MR. ALLEN: The council in the towns and



to the taxpayer.

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1 cities make the decision and the town and city school
2 boards, if it is a school board and in the rural areas
3 the authorization must be voted by the ratepayers.

4 COMMISSIONER BROWN: My question really
5 was is it council that makes the decision or is it
6 the ratepayers by turning down the by-law?

7 MR. ALLEN: In the rural areas of the school
8 boards if the ratepayers turn down the authorization
9 the matter ends then and there. In our town and
10 city school or council the matter is not even referred
11 to the ratepayers; the decision is entirely for the
12 council.

13 COMMISSIONER BROWN: So it is a question
14 of the councils making a decision that the interest
15 rates are too high to put the by-laws rather than
16 of putting by-laws and having them turned down by the
17 ratepayers because the ratepayers consider it too high.

18 COMMISSIONER MACKINTOSH: The ratepayer has
19 redress by voting out the council.

20 MR. ALLEN: That is so.

21 THE CHAIRMAN: If the interest rate is a
22 little higher than normal it would add a slight
23 increase to the taxes but a large increase in the
24 taxes is coming from the project itself, large capital
25 charges as well as the interest rate.

26 MR. ALLEN: Oh yes, there is no doubt about
27 that.

28 THE CHAIRMAN: If the tight money causes
29 the increase in the interest rate of one per cent,
30 we will say, that would add something to the burden but



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that.

THE CHAIRMAN: If the slight money cannot

the increase in the interest rate of one per cent,

we will say, that would add something to the burden but



1 the big burden would be the rest of the interest
2 whatever it might be, whether 4 per cent or whatever
3 it might be?

4 MR. ALLEN: That is right.

5 THE CHAIRMAN: Plus the charges for the
6 capital depending on how they are managed.

7 COMMISSIONER MACKINTOSH: Has there been
8 any tendency to compensate by extending the term
9 of the borrowing in a bid to reduce the annual
10 charges?

11 MR. ALLEN: Yes, that is so. There is a
12 tendency now for the municipalities to try and
13 amortize over a 40-year period which they can do much
14 better than say on 20 or 25 years.

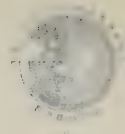
15 COMMISSIONER BROWN: Do you have regulations
16 or statutes that hold them down to 20 or 25?

17 MR. ALLEN: In general our municipalities
18 get their authority to borrow by a special act of
19 the legislature and the term is spelled out in the
20 special act, not to exceed a certain number of years.
21 The last few years the tendency has been to go as
22 high as 40 years but we try as much as possible to
23 keep it down to 30 years, even 20.

24 COMMISSIONER BROWN: Is your municipal
25 borrowing confined to serial issues or are they
26 permitted to go into sinking fund in issues?

27 MR. ALLEN: It is practically all serial
28 issues now.

29 COMMISSIONER BROWN: Has this been by
30 statute?



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test?



1 MR. ALLEN: It could be done by provincial
2 act but in the last few years it has practically all
3 been serial bonds.

4 COMMISSIONER BROWN: Is this by direction or
5 choice?

6 MR. ALLEN: Largely by choice.

7 COMMISSIONER BROWN: Do you have equalization
8 of assessment regulations?

9 MR. ALLEN: No, not as yet. We hope to
10 in two years' time.

11 COMMISSIONER MacKEEN: Does your department
12 authorize each borrowing as well as the special act
13 of the legislature?

14 MR. ALLEN: Within the last two years through
15 the office of the Municipal Bond Co-ordinator we
16 have been trying to time the issues. That has really
17 been our activity.

18 HON. MR. DesBRISAY: This might be pointed
19 out. I do not think it has been yet. We do have a
20 Municipal Bond Co-ordinator working on the same basis
21 with our municipalities as I explained we work on
22 a national basis so that there is no overlapping.

23 COMMISSIONER BROWN: Are your municipal issues
24 done by public tender, bidding?

25 MR. O'BRIEN: Yes, they all are.

26 MR. ALLEN: Oh yes, all are.

27 THE CHAIRMAN: Have you tried any other
28 method? Have you tried using a syndicate?

29 MR. ALLEN: Well, I am not familiar with
30 this. I understand quite a bit is done through



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1 syndicates, the larger issues.

2 THE CHAIRMAN: But it is a bid system?

3 HON. MR. DesBRISAY: Different syndicates,
4 I presume, would bid on it.

5 COMMISSIONER MACKINTOSH: It is not a single
6 syndicate at a negotiated price?

7 HON. MR. DesBRISAY: No, a group get
8 together. They do that quite a bit.

9 COMMISSIONER MACKINTOSH: But they take
10 it by public tender?

11 HON. MR. DesBRISAY: Yes.

12 THE CHAIRMAN: By the way, your accounting,
13 do you have a capital account separate from the
14 current account?

15 MR. ALLEN: Yes.

16 THE CHAIRMAN: And your revenues are sufficient
17 or more than sufficient to take care of your current
18 expenditures?

19 MR. ALLEN: Oh yes.

20 THE CHAIRMAN: So that your borrowings
21 are not to take care of current deficits, they are
22 merely capital?

23 MR. ALLEN: Absolutely.

24 COMMISSIONER IEMAN: Do you allow
25 municipalities to go to the United States market?

26 MR. ALLEN: There is nothing actually for
27 us to stop them. I do not think the practice has
28 been followed to any great extent. I think the city
29 of Saint John has on one or two occasions.

30 COMMISSIONER IEMAN: If a municipality wants



Volume 100

syndicates, the larger ones.

THE CHAIRMAN: But is it a big system?

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COMMISSIONER LEAH: It is municipally owned



1 to go to the United States market and use the same
2 formula that the province uses then you would not
3 feel that it should be discouraged from doing so,
4 the same formula for gauging advantage or disadvantage?

5 HON. MR. DesBRISAY: We would not discourage
6 it.

7 COMMISSIONER LEMAN: I am a little bit
8 puzzled by that because in your introduction to the
9 brief, Mr. Des Brisay, you suggest in recommendation
10 No. 3 that:

11 " That a study be undertaken to
12 determine the adequacy of Canadian capital
13 markets to meet domestic needs, particularly
14 with a view to determine the role which
15 the United States market should play in
16 municipal and provincial borrowing."

17 Now, I would like to get your view of
18 this and I am very much intrigued by this thinking.
19 Let us make some assumptions, that if such a study
20 had been made it would be discovered that on the
21 average the capital markets in Canada would be
22 sufficient for all national needs, municipal, industrial
23 and senior government levels except one or in areas
24 where there are immense and exceptional booms in
25 resource development of the type we have seen, such
26 as oil development, major iron ore projects and that
27 sort of thing. Suppose that was the result of it
28 do you have any ideas as to where it would be wiser
29 to channel foreign capital?

30 HON. MR. DesBRISAY: Where ...?



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to channel foreign capital?

HON. MR. DEBRISSAY: Where ...?



1 COMMISSIONER LEMAN: Where would it be
2 more wise to channel foreign capital used in the
3 country if we discovered that there were only these
4 big excess needs at times which could not reasonably
5 be financed within the country itself?

6 HON. MR. DesBRISAY: I do not quite under-
7 stand. You mean where, in what country?

8 COMMISSIONER LEMAN: No, into what areas
9 should they be channelled?

10 HON. MR. DesBRISAY: Well, in the first
11 place ...

12 COMMISSIONER LEMAN: In other words, would
13 you be in favour of financing, say, oil development
14 in Canada with Canadian capital and financing
15 municipal borrowings with foreign capital?

16 HON. MR. DesBRISAY: I think the answer
17 is what we have done here. We have done a considerable
18 amount of our Power Commission financing in the United
19 States. We have done some promotion on the industrial
20 potential of New Brunswick in American markets and
21 we are doing this consistently so that the bond buyer
22 in the New York market today is aware of the New
23 Brunswick Power Commission and what plans are trying
24 to be developed there.

25 We have evidence to prove that because of
26 the need on the market, because there is a demand
27 in New York for our bonds (the demand actually exists
28 today) we can place money there and because of this
29 we have been able to save the province money to a
30 considerable extent by going to the New York market.



COMMISSIONER LEMAN: Where would it be

more wise to channel foreign capital used in the country if we discovered that there were only these big excess needs at times which could not reasonably be financed within the country itself?

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1 COMMISSIONER LEMAN: Well, what are your
2 general thoughts, that it has no importance and if
3 the country needs some foreign capital on the average
4 or over a decade you feel it has no importance where
5 that foreign capital is channelled?

6 HON. MR. DesBRISAY: No, personally I do
7 not believe it makes too much difference. As long
8 as the capital is used we would like to think it would
9 be used here to further our economic development
10 whether it be through the Power Commission or through
11 a programme of road building which is necessary. I
12 do not have any particular feeling that it should be
13 directed into any one specific area.

14 MR. GALLAGHER: Would not it involve the
15 question of whether it would be proper to have the
16 United States citizens own our governments or, say,
17 our oil industries?

18 COMMISSIONER LEMAN: We just asked you if
19 you had any views on this.

20 HON. MR. DesBRISAY: I think this is
21 probably something that the federal government could
22 very well study -- the direction of foreign capital
23 investment and we would be quite prepared to discuss
24 this as to where best to channel it. There are a
25 number of things that are of national significance
26 in this question. ^They do not apply only to New
27 Brunswick. I think it should be co-ordinated. If
28 we finally come to a conclusion that it should be
29 directed into specific areas I think then this
30 probably should be adhered to as somewhat of a national



1 policy.

2 The second thing is with our Power Commission
3 we find that there is a better market for Power
4 Commission bonds than there would be for straight
5 provincial borrowing although the Power Commission
6 are doing it with a provincial guarantee. It should
7 be less than that according to the bond market and
8 yet we do find a very good market for Power Commission
9 bonds. The American investor apparently recognizes
10 the earning potential of this earning asset.

11 COMMISSIONER MacKEEN: Theoretically at
12 least the Power Commission is self-sustaining and
13 self-liquidating?

14 HON. MR. DesBRISAY: It is.

15 COMMISSIONER BROWN: Does the Power
16 Commission have any earning capacity of American
17 dollars, do you export power at all?

18 HON. MR. DesBRISAY: Yes, to some small
19 extent.

20 COMMISSIONER BROWN: Not to any great
21 extent?

22 HON. MR. DesBRISAY: No.

23 COMMISSIONER BROWN: This is one of the
24 problems, is it not, in the Canadian economy, that
25 until we get to the point where we get an export
26 service we are having to borrow money to meet our
27 interest and dividend payments externally and this
28 is one of the arguments against going to the American
29 markets because it increases the cost and this is
30 what I think Mr. Leman is getting at in respect to



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markets because it increases the debt and this is
what I think Mr. Deane is getting at in respect to



1 extent that it increases our dollar to make these
2 external payments?

3 HON. MR. DesBRISAY: Our borrowing in
4 volume, of course, is so small as compared with other
5 power commissions that on the over-all market it
6 really does not affect the balance in Canada. This,
7 I think, would apply to the Atlantic region, it
8 would include the whole Atlantic region.

9 COMMISSIONER LEMAN: Except if you borrowed
10 at a time when the Canadian dollar is at a 5 per cent
11 premium and then repay over a period when it is at
12 a $7\frac{1}{2}$ per cent discount your effective cost would
13 be different. I am just wondering that you would let
14 the fact that certain borrowers have an automatic
15 exchange -- would you let that influence your judgment
16 as to where to channel foreign capital?

17 HON. MR. DesBRISAY: I think so, yes.
18 While the discount for a rough rule-of-thumb over
19 the long term of 25 years, say, is half a point we
20 can go up to 12 per cent and still be in our favour.

21 THE CHAIRMAN: That is all taken into
22 consideration in your calculations?

23 HON. MR. DesBRISAY: Exactly.

24 THE CHAIRMAN: You assume that during the
25 whole period there will be times when the dollar will
26 be relatively low and even if it is you would come
27 out the same as if you borrowed here at the interest
28 rates you would have to pay unless it goes very much
29 below your estimation. I know we went through the
30 same situation.



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1 COMMISSIONER BROWN: Do you have a call
2 feature at all in your American borrowing?

3 HON. MR. DesBRISAY: Yes, at the end of the
4 extended period, ...

5 MR. O'BRIEN: The 20-year point would be
6 three years.

7 COMMISSIONER BROWN: You have the power to
8 call it in the last three years?

9 HON. MR. DesBRISAY: Generally two or
10 three years. I think one was five.

11 COMMISSIONER BROWN: How about sinking
12 funds, is there a sinking fund on the issues?

13 HON. MR. DesBRISAY: Every one.

14 MR. O'BRIEN: On every issue.

15 COMMISSIONER BROWN: So then the average
16 cost of the dollar will come into your picture?

17 MR. O'BRIEN: Yes.

18 COMMISSIONER BROWN: I wonder if I can
19 revert to a matter we were discussing earlier and
20 that is these shared cost programmes and the extent
21 to which the province is having to finance the
22 federal participation to the point you make in your
23 brief.

24 HON. MR. DesBRISAY: Perhaps I could ask
25 the Comptroller-General to answer this as it applies
26 to one programme we have in mind, the roads and
27 resources programme, a total of \$15 million. He will
28 give some details as to what our position is at the
29 moment.

30 MR. McNICHOL: Mr. Chairman, the Roads and



COMMISSIONER BROWN: Do you have a call

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HON. MR. DEARBAY: Perhaps I could say

the Comptroller-General to answer this as it applies

to one programme we have in mind, the roads and

resources programme, a total of \$40 million. We will

give some details as to what our position is at the

MR. MONTGOMERY: Mr. Chairman, the roads and



1 Resources programme is a 10-year agreement covering
2 the fiscal years 1959-1969. The gross amount of
3 expenditure would be \$15 million on a 50-50 basis.
4 The expenditure is limited to \$1½ million annually
5 as far as the federal government is concerned. But
6 over the 4-year period 1959-1962 the gross expenditure
7 has been \$7.4 million of which roughly \$200,000 would
8 be non shareable. That means that there would be
9 about \$3 million 5 which would be shareable and we
10 have either received or will receive about \$2 million
11 4 leaving about \$1 million 1 which is outstanding
12 as far as the federal government is concerned and
13 which we would have to carry along to the end of the
14 agreement unless we cut back on the programme between
15 now and 1969. So that the province is actually
16 financing \$1 million over and above their requirements.

17 THE CHAIRMAN: The \$1 million is over and
18 above the share programme?

19 MR. McNICHOL: The province is spending
20 its money at a faster rate than is permitted under
21 the agreement.

22 THE CHAIRMAN: By \$ 1 million?

23 MR. McNICHOL: By \$1 million to date over
24 the four-year period that we have gone so far.

25 COMMISSIONER BROWN: So this \$1 million
26 will not come back to you until the end of the
27 programme?

28 MR. McNICHOL: Or if we cut back on the
29 programme.

30 THE CHAIRMAN: In other words, you have



Resources programs in a 10-year agreement covering
the fiscal years 1969-1970. The amount of
expenditure would be \$15 million on a 50-50 basis.
The expenditure is 1/3 to \$1 1/2 million annually
as far as the federal government is concerned. But
over the 4-year period 1969-1972 the gross expenditure
has been \$7.4 million of which roughly \$300,000
be non shareable. That means that there would be
about \$3 million 2 which would be shareable and we
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MR. MONTGOMERY: Or if we cut back on the
THE CHAIRMAN: In other words, you have



1 spent a sum of money half of which is contributed
2 by the federal government and in addition to that
3 you have spent \$1 million of your own, is that right?

4 MR. McNICHOL: No, that is not quite right,
5 sir. The \$1 million is the federal portion.

6 COMMISSIONER BROWN: You have spent \$2
7 million?

8 MR. McNICHOL: We have spent \$2 million.
9 We have paid our own and are carrying the other
10 \$1 million until such time as we can recover it under
11 the agreement.

12 THE CHAIRMAN: Well, what is the delay?

13 MR. McNICHOL: Well, the agreement has
14 fixed it at \$1½ million per annum total. For instance,
15 in 1960 the gross expenditure was \$1 million 6 but
16 under the agreement all we could spend was \$1½ million.
17 In 1961 we spent \$2 million 1 to give us the \$1 million
18 5 and in 1962 the figure will be \$3.0 million 2 as
19 against the \$1½ million.

20 HON. MR. DesBRISAY: I would like to point
21 out in all these programmes where we did spend 2.1
22 we have to get approval from the federal government.
23 We can only collect 750 in the current fiscal year.

24 COMMISSIONER MACKINTOSH: That is because
25 you have really exceeded the programme ---

26 HON. MR. DesBRISAY: Yes.

27 THE CHAIRMAN: But you do catch up?

28 MR. McNICHOL: At the end of the agreement.

29 THE CHAIRMAN: Eventually you will get your
30 total 50 per cent?



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by the Government and the other half by the States.

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HON. MR. DEARBORN: I would like to point

out in all these programs where we did not

we have to get approval from the federal government.

We can only collect 70% in the current fiscal year.

COMMISSIONER MCINTOSH: That is because

you have really extended the program --

HON. MR. DEARBORN: Yes.

THE CHAIRMAN: But you do catch up.

MR. MCINTOSH: At the end of the agreement.

THE CHAIRMAN: Eventually you will get your



1 MR. McNICHOL: Unless we exceed the \$15
2 million.

3 COMMISSIONER BROWN: In the meantime you
4 have to carry this million on that is costing you
5 the interest charges on the million.

6 MR. McNICHOL: Yes, about \$60,000 a year.

7 HON. MR. DesBRISAY: We have another
8 example which Mr. Gallagher could give on this.

9 MR. GALLAGHER: As a general rule the
10 province finances the federal share of the shared-cost
11 programmes, even those in which progress payments
12 are made, and we would finance on a month-to-month
13 basis, or this sort of thing. Probably the most
14 recent example of a programme whereby the province
15 must finance the entire amount of the federal share
16 falls under the recent policy with regard to ship
17 construction assistance, and in this case -- in cases
18 of smaller ships which are being built in the \$300,000
19 or \$400,000 class, although the regulations provide
20 for a federal progress payment equal to 80 per cent
21 of the total federal share, the federal government
22 does not make such payments. They pay only after the
23 vessel is placed in the water and ready to sail.

24 This places, in cases where the province is involved,
25 the province in the position where it must finance
26 directly or indirectly the cost of the federal money.

27 THE CHAIRMAN: Could you elaborate on that?
28 What sort of ships are involved?

29 MR. GALLAGHER: There is a fair range of
30 ships that fall within the programme itself. The ones



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recent example of a programme whereby the province

must finance the entire amount of the federal share

falls under the recent policy with regard to ship

construction assistance, and in this case -- in case

of smaller ships which are being built in the \$100,000

or \$100,000 class, although the regulations provide

for a federal progress payment equal to 50 per cent

of the total federal share, the federal government

does not make such payments. They pay only when the

vessel is placed in the water and ready to sail.

This places, in cases where the province is involved,

the province in the position where it must finance

directly or indirectly the cost of the federal money.

THE CHAIRMAN: Good, now elaborate on this.

What sort of ships are involved?

MR. GALLAGHER: There is a fair range of

ships that fall within the programme limits. The ones



1 I have in mind particularly are fishing vessels such
2 as trawlers; these are the large steel ones. We
3 have a couple under construction now. These are
4 the ones I am thinking of. But, the assistance applies
5 to a fairly large range of vessels.

6 THE CHAIRMAN: What other type of vessels
7 would be involved from your province's point of view
8 besides the fishing?

9 MR. GALLAGHER: This is probably the only
10 type we would be involved in -- that is, the government
11 itself would be involved in -- but there is a large
12 vessel under construction in Saint John under the
13 programme, but the provincial government is not building
14 it.

15 THE CHAIRMAN: But the federal government
16 makes a contribution to that?

17 MR. GALLAGHER: The assistance would apply
18 up to 40 per cent.

19 THE CHAIRMAN: There is assistance from
20 the federal government to that particular project?

21 MR. GALLAGHER: To the ship owner. I think
22 the regulations provide that ---

23 THE CHAIRMAN: What sort of ship is that?

24 MR. GALLAGHER: There is one -- I am not sure
25 what it is.

26 COMMISSIONER MacKEEN: They are mainly
27 draggers and trawlers, aren't they?

28 MR. GALLAGHER: No, this is larger than
29 that.

30 COMMISSIONER MacKEEN: Coastal?



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THE CHAIRMAN: What other type of vessels would be involved from your province's point of view besides the fishing?

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COMMISSIONER WILSON: They are making progress and trawlers, aren't they?

MR. GALLAGHER: No, this is larger than



1 MR. GALLAGHER: I am not sure.

2 THE CHAIRMAN: Some sort of tanker, is it?

3 HON. MR. DesBRISAY: That is my understanding.

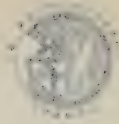
4 MR. GALLAGHER: I am not certain what type
5 it is.

6 THE CHAIRMAN: I am interested because
7 there was a point made in your brief, which I thought
8 you regarded as one of considerable importance, that
9 the federal government should invest more -- there
10 should be more federal investment in the province in
11 one form or another, and we have heard of some of
12 the programmes where there has been federal investment,
13 and this shipping is rather an interesting one. It
14 is a little different from the usual. I was wondering
15 to what extent that might grow -- how big a programme
16 is it likely to be or has it been up to the present?

17 MR. GALLAGHER: I think it would be probably
18 a bit early to be able to assess what the likely impact
19 of the programme will be. I don't think anyone would
20 argue with the merit of the programme. It would
21 have the effect generally of stimulating the ship
22 building industry in this part of Canada, and we would
23 consider this to be desirable.

24 THE CHAIRMAN: This is intended to advance
25 the economy generally.

26 MR. GALLAGHER: If I may interject, sir,
27 Mr. O'Brien has informed me that the ship under
28 construction is an ore carrier for a Greek concern.
29 But, we have talked about two of the shared-cost
30 programmes which are in the area, certainly, of



MR. GALLAGHER: I am not sure.

THE CHAIRMAN: Some sort of factor, is it?

HON. MR. DESBRIAY: That is my understanding.

MR. GALLAGHER: I am not certain what type

it is.

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MR. GALLAGHER: If I may interrupt, sir,

Mr. O'Brien has informed me that the ship order

construction is an one concern for a Great concern,

But, we have talked about two of the great ones

which are in the area, certainly, of



1 economic development which in the government
2 submission are indicated to be most desirable. We
3 have not, however, talked about the shared cost
4 programmes which are not in this classification, and
5 these include the great bulk of the federal programmes
6 with which we are concerned.

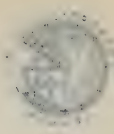
7 THE CHAIRMAN: That is the welfare, and
8 so on?

9 MR. GALLAGHER: Mainly health and welfare.

10 THE CHAIRMAN: Well, if it were not for
11 those programmes of health and welfare, would you
12 be able to finance them yourselves? Do you think
13 the programmes are going too far?

14 MR. GALLAGHER: I think it was emphasized
15 in the submission that there was no argument with
16 respect to the merits of the programmes, and certainly
17 the availability of such shared cost programmes has
18 provided a level of services in these fields which,
19 in my personal opinion, the province would not other-
20 wise have had, and I think most provinces would make
21 the same statement, but there is general agreement
22 in Canada -- at least, at my level -- that there is
23 a number of pretty major defects in these programmes,
24 and the federal people, I think, would be inclined
25 to agree also. There is the question of controls
26 of the rates of expansion and the introduction of new
27 programmes, and in this area the province has played
28 very little part in the over-all development of the
29 programmes in these fields.

30 Another point we have made in this regard



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1 is the fact that we have consistently maintained
2 that the principle of fiscal need should be
3 introduced into the shared cost programmes themselves,
4 as well as just applying on the equalization formula
5 with respect to the three standard tax fields,
6 including the natural resource revenues which have
7 been added recently.

8 COMMISSIONER BROWN: Can you give us
9 some more specific examples? There is the hospital
10 programme which is on a per bed basis. This means
11 presumably, as the provincial government has to put
12 up the largest share, they have control over this.
13 But what are these other programmes of a capital
14 nature, and what sort of straight annual expenditure
15 nature? Can you give us some more specific examples?

16 MR. GALLAGHER: That we are involved in
17 at the present time?

18 COMMISSIONER BROWN: That you feel you are
19 being pushed into without due consideration and
20 consultation?

21 MR. GALLAGHER: I can give you again the
22 most recent example, and again I must insist I am
23 expressing a view here.

24 COMMISSIONER BROWN: Perhaps we should ask
25 the Treasurer.

26 MR. GALLAGHER: But in the question of the
27 old age assistance payments, we have a joint programme
28 in this field whereby the federal government matches
29 the provincial expenditures in terms of old age
30 assistance and other allowances to various types of



that the principle of fiscal need should be introduced into the shared cost programmes themselves, as well as just applying on the equalization formula with respect to the three standard tax fields, including the natural resource revenues which have been added recently.

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1 disabled persons. Four months ago these grants from
2 the federal government were increased on a retroactive
3 basis. The government, again in my view, had very
4 little real alternative but to go along. So, we
5 are faced with the rather interesting spectacle of
6 a programme in which the federal government matches
7 the province practically placing the province in a
8 position where it must match the federal share.

9 THE CHAIRMAN: The federal government has
10 increased its share on the understanding the province
11 will increase its share?

12 MR. GALLAGHER: That is right.

13 THE CHAIRMAN: Would that be -- I am not
14 quite sure of which programme you are speaking?

15 MR. GALLAGHER: Old age assistance.

16 THE CHAIRMAN: Would that be from 65 to 70?

17 MR. O'BRIEN: Yes.

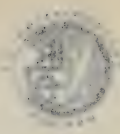
18 COMMISSIONER BROWN: This is the one with
19 the means test?

20 MR. O'BRIEN: Yes.

21 MR. GALLAGHER: And the disabled persons
22 allowances were included in the same deal. This is
23 the most recent example which would serve as an
24 illustration.

25 COMMISSIONER BROWN: How much is involved
26 in that?

27 MR. GALLAGHER: About half a million dollars
28 a year -- that is our share. We have estimated the
29 total cost to be approximately \$1 million additional.
30 The retroactive feature will cost the province about



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1 \$100,000.

2 HON. MR. DesBRISAY: The other feature of
3 this is that in our budgetary procedure we have no
4 advanced warning. This came during our budgetary
5 year, and we had to make some other provisions for
6 that particular amount of money, over which we had
7 very little control.

8 MR. GALLAGHER: These are not objections
9 which this province is alone in raising. I think
10 you will find in your travels around the country that
11 almost every province, with the possible exception
12 of one or two, will probably echo these views, with
13 the possible exception of the fiscal aid concept --
14 I don't know how broadly based this would be outside
15 this region. It would be widely held in this part
16 of Canada.

17 COMMISSIONER BROWN: To sum up this, you
18 feel on these cost-sharing programmes either there
19 should be prior consultation or a fiscal aid concept
20 in the sharing percentage basis.

21 MR. GALLAGHER: There should be both.
22 I don't think it would be a question of "either/or".
23 It seems to me in a programme area where both
24 governments are exploiting, particularly when these
25 are areas in which the federal government has
26 extremely little jurisdiction, that the concept of
27 some joint planning is not altogether unacceptable.

28 THE CHAIRMAN: On that programme is there
29 any discretion in the province to decide on the
30 amounts payable under that scheme to individuals?



HON. MR. DESBRIAY: The other feature of this is that in our budgetary procedure we have no provision for that particular amount of money, over which we had

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1 It is on the means test basis, and to what extent
2 is the province free to decide on what sort of
3 means test to apply? That is all part of the formula,
4 isn't it? In other words, in a province where it
5 may not be as urgent and necessary to increase the
6 pensions now being paid as in some province where
7 the cost of living has gone up very fast and relatively
8 to a much larger extent, has the province got any
9 discretion as to how much increase they should allow?

10 MR. GALLAGHER: It is my understanding there
11 is really very little, once the limits have been set.

12 COMMISSIONER MACKINTOSH: Isn't it true
13 the means test is set in terms of other income and
14 financial assets which are the same for all the
15 provinces and there is a theoretical freedom on the
16 part of the province to say, "We are not going into
17 this" -- but, that is a bit theoretical.

18 MR. GALLAGHER: Yes, sir.

19 THE CHAIRMAN: That is one of the great
20 difficulties: It is difficult to refuse even though
21 you think it may be the right thing to do.

22 MR. GALLAGHER: The reason for getting into
23 this area at all is that if we break down our
24 expenditures over the past 10 years the great portion
25 of the growth is coming from these shared cost
26 programmes, and the increase in our tax ratio -- the
27 growth there is not the same. So, if you continue the
28 project you get to the point where the province is
29 going to be increasing its borrowing requirements,
30 and we feel a very important alternative would be to



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1 reduce the requirements themselves by altering the
2 nature of some of these shared cost programmes.

3 THE CHAIRMAN: There is one place in your
4 brief where you suggest New Brunswick has not been
5 subject to any serious inflationary pressures. That
6 is not the way it is put in words, but that is the
7 impression I got. I was wondering whether that is
8 entirely so. In the first place, if you are not subject
9 to inflationary pressures I suppose the justification
10 for an increase in some of these welfare benefits
11 would not be very great unless the welfare benefits
12 were not great enough, relatively, before?

13 MR. GALLAGHER: That is, I think, a very
14 important "unless". We haven't been able to determine
15 with any kind of precision what the relative costs
16 of living are between New Brunswick and the rest of
17 Canada. I think perhaps the only expressions of view
18 in this regard are to be found in one of the sub-
19 studies of the Royal Commission on Canada's Economic
20 Prospects. I think their general view was that
21 living costs were about the same all across Canada
22 with the exception of Newfoundland which was about
23 10 per cent higher. But with regard to the absence of
24 inflationary trends in New Brunswick, our conclusion
25 was that we haven't been able to find in the history
26 of the province that there has been the kind of
27 economic conditions which would warrant any form of
28 monetary restraint being applied. I think this was
29 the context this view was expressed in. Other
30 commissions and groups have examined this type of



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economic conditions which would warrant any form of

monetary restraint being applied. I think this was

the context this view was expressed in.

commissions and groups have examined this type of



1 thing and probably come to the same conclusion.

2 THE CHAIRMAN: Well, in New Brunswick has
3 there been a general increase in prices of commodities?

4 MR. GALLAGHER: Prices have certainly risen
5 in New Brunswick over the recent years. Whether this
6 is the result of the pressure of demand or we have
7 got to the point where we have no excess capacity
8 and no unused resources, I would be inclined to
9 debate that, but we can get price increases in
10 New Brunswick even if we were in the depths of total
11 depression. Prices could still rise depending on
12 what was happening in the rest of Canada and in
13 North America.

14 COMMISSIONER MACKINTOSH: Your main
15 contention is that you have not experienced inflation
16 in the sense that there is an unsatisfied demand for
17 labour in New Brunswick?

18 MR. GALLAGHER: Labour or some of our
19 other resources as well.

20 COMMISSIONER MACKINTOSH: Is there, however,
21 some inflation through efforts to establish wage
22 and income rates comparable with other provinces
23 even though your labour force may be under-unemployed?

24 MR. GALLAGHER: I think probably this
25 tendency exists in New Brunswick to about the same
26 extent it is probable in Canada at all vis-a-vis
27 Canada's position with the United States. We tend
28 to look at these as objectives.

29 COMMISSIONER MACKINTOSH: But you might have
30 a circumstance in which a rise in labour rates in



thing and probably come to the same conclusion.

THE CHAIRMAN: Well, in New Brunswick has

there been a general increase in prices of commodities

in New Brunswick over the recent years. Whether this

is the result of the pressure of demand or we have

got to the point where we have no excess capacity

and no unused resources, I would be inclined to

debate that, but we can get price increases in

New Brunswick even if we were in the depths of total

depression, and that is what is happening in

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and income rates comparable with other provinces

even though your labour force may be under-employed?

MR. GALLAGHER: I think probably so.

There is a tendency to exist in New Brunswick to look at the same

extent it is probable in Canada at all times - is

Canada's position with the United States. We tend

to look at these as objectives.

COMMISSIONER MACKINTOSH: But you might have

circumstances in which a rise in labour rates in



1 Ontario and Quebec did reflect, you might say, over-
2 employment in those regions and you might get some
3 response in New Brunswick to level up, whereas in
4 New Brunswick there was no unsatisfied demand for
5 labour.

6 MR. GALLAGHER: I think this would be a
7 possibility.

8 COMMISSIONER MACKINTOSH: How are the
9 relative labour costs of, say construction, in
10 New Brunswick as compared with the central provinces?
11 Are they lower or higher?

12 MR. GALLAGHER: To point to one example,
13 the Central Mortgage and Housing Corporation provide
14 published data on costs of building similar type
15 houses in various parts of the country, and on this
16 basis our costs would be slightly, say, above those
17 in certain parts of Ontario.

18 COMMISSIONER MACKINTOSH: Slightly above?

19 MR. GALLAGHER: Slightly above. We have
20 such quality differences that I don't know how this
21 would work out on balance.

22 COMMISSIONER MACKINTOSH: I thought you
23 said this was a standard house?

24 MR. GALLAGHER: Yes, but a standard house
25 is only a standard house according to C.M.H.A.
26 standards in terms of how it is constructed. You
27 may have in Ontario, for example, one type of
28 construction -- that is, the material -- of bricks,
29 and where we had used wood down here, and this type
30 of distinction would not show up in the average cost



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of distinction would not show up in the average cost



1 per square foot. I think also you can build additional
2 costs even into a standard house if you have sufficient
3 income to do so. This is what the Central Mortgage
4 and Housing people tell me, that you should not rely
5 too much on these cost figures being quite precise.

6 COMMISSIONER BROWN: Your costs here are
7 higher than in Ontario?

8 MR. GALLAGHER: In this particular type of
9 construction, what data is available would seem to
10 point to this.

11 COMMISSIONER BROWN: You think this is
12 because it is a better quality house here?

13 MR. GALLAGHER: This may be a factor in
14 reducing the differential. That is what I am
15 suggesting: That our figures, if you had actually
16 the identical house, and included things such as land
17 costs, you may be a bit higher in the figures.

18 COMMISSIONER BROWN: How do you account
19 for ---

20 MR. GALLAGHER: Excuse me: A bit lower.

21 COMMISSIONER GIBSON: One of the themes
22 in your brief which you were just mentioning a few
23 minutes ago was a tendency for provincial spending
24 responsibilities to increase relative, I take it,
25 to the tax base, and relative, presumably, to other
26 levels of government. You gave us one of the reasons
27 for this phenomenon which in your view was the
28 development of the share-cost programmes which pulled
29 you into financing programmes which you may not other-
30 wise have gone into. What are the other factors that
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1 thing, I take it?

2 MR. GALLAGHER: The other factors in just
3 increasing the levels of spending on provincial
4 levels?

5 COMMISSIONER GIBSON: Yes, and particularly
6 increasing them relative to your tax basis and to
7 other levels of government?

8 MR. GALLAGHER: Well, I think certainly one
9 factor involves a consideration certainly of not
10 financing your economy by much. Through the develop-
11 ment of much more rapid transportation and communication
12 systems people in New Brunswick and Nova Scotia are
13 much more easily exposed to higher standards of living
14 which prevail in other areas and I think this
15 constitutes a factor in increasing that sort of
16 effective demand on governments to provide such
17 services on a level of quality ---

18 COMMISSIONER GIBSON: Such as roads,
19 public utilities and that sort of thing?

20 MR. GALLAGHER: This type of thing. This
21 is not the type of factor which you can point to
22 specifically but I think there are some trends in
23 this direction.

24 COMMISSIONER GIBSON: In other words, there
25 is a social and political demand for sort of a national
26 standard in these things?

27 MR. GALLAGHER: I think that people just
28 expect more from governments because of these factors
29 because they can see what other governments on a
30 broader tax basis and rate of tax potential are able



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1 to provide.

2 COMMISSIONER GIBSON: Are there any other
3 factors?

4 MR. GALLAGHER: Yes, there is one other
5 factor I have in mind. I am not certain of the
6 extent this factor would increase spending but I am
7 certain it does have weight on the effect of increasing
8 the desire of governments to spend and that is the
9 question of just what the role of government today
10 in the field of economic development should be. It
11 seems that most governments at the provincial level
12 in the past 10 years or so have become much more
13 aware of the fact that they have certain responsibilities
14 in this field. So the extent to which these
15 responsibilities should be made available is, of
16 course, a function of the amount of money which they
17 can generate for this purpose. At least it constitutes
18 a force to increase the desire to spend and increase
19 the responsibilities of the provincial governments
20 for spending.

21 COMMISSIONER BROWN: These fall into two
22 categories, the indirect, I suppose, such as your
23 road programme, your excess roads, and the direct
24 through financing of capital concerns etc?

25 MR. GALLAGHER: Yes, this latter one,
26 there is a great deal of competition not only in
27 Canada but in North America for new firms and the
28 provinces have to compete in order to attract
29 industries and to develop a fairly large programme.
30 Whether indirectly, by providing facilities etc.,



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1 is another factor but in any event the costs have
2 tended to rise.

3 COMMISSIONER GIBSON: Do you say this
4 tendency is good or in future do you see anything
5 alleviating it or improving it?

6 MR. GALLAGHER: From the point of view of
7 this part of the country?

8 COMMISSIONER GIBSON: From the point of view
9 of your province, yes.

10 MR. GALLAGHER: The only factor which would
11 have the effect of increasing the province's ability
12 or increasing the tax potential available to the
13 province to meet this increased requirement would be
14 some alterations in federal policy with increases to
15 fall to the provinces. I am not competent to judge
16 how likely this is in the immediate future or the
17 long term but the factors which would increase the
18 provincial ability to finance these types of expenditures,
19 really you would need a much more rapid rate of economic
20 growth of the province which would have the effect
21 of developing its tax revenues.

22 COMMISSIONER GIBSON: Part of your expenditures
23 are designed to do just those, this is the reason for
24 development programmes?

25 MR. GALLAGHER: Well, we certainly are
26 trying to achieve this effect but it is a question of
27 the degree. We cannot go nearly as far in developing
28 programmes of this type as we would like to and this
29 prompted the emphasis on the suggestion that the
30 federal government should sort of re-structure its form

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1 of shared cost programmes, to more or less move out
2 from the health and welfare programme and go into
3 the field of economic development and operate on
4 this type of programme on a joint basis.

5 COMMISSIONER GIBSON: Are there major areas
6 of economic development today where you would like to
7 see specific substantial projects pursued?

8 MR. GALLAGHER: I think that we would be in a
9 position to express some pretty positive views in
10 this regard if the federal government said they
11 would like to discuss them and move into this field.

12 COMMISSIONER GIBSON: Well, of course, it
13 is your field.

14 MR. GALLAGHER: Well, there is some question
15 about this. The field of economic development is no
16 more the sole prerogative of the province than is the
17 field of health or education.

18 COMMISSIONER GIBSON: Well, resources and
19 property and civil rights are provincial, aren't they,
20 under our constitution?

21 MR. GALLAGHER: That is correct, sir.

22 COMMISSIONER GIBSON: Isn't this what we
23 are talking about to a large extent? Aren't these
24 things in this sort of area?

25 MR. GALLAGHER: I do not just get the point
26 you are making but the point I am trying to make is
27 that in these fields which are, according to the
28 constitution, really under the exclusive jurisdiction
29 of the provinces I gather that you have suggested that
30 economic developments fall within this same category.



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COMMISSIONER GIBSON: To quite a large degree I should have thought.

MR. GALLAGHER: Well, the point I am making is that the federal government has had very little reluctance to provide and develop expenditure programmes in other parts of this exclusively provincial field and I cannot see that this provincial nature of the field should act as a barrier in keeping the federal government out of this. When we consider the fact that through the tax structure the great proportion of the tax revenues that accrue to the economy as a result of economic development, these revenues accrue to the federal government rather than the provinces.

THE CHAIRMAN: On the other hand some of these joint programmes have resulted from initiation taken by certain provinces?

MR. GALLAGHER: This is true.

THE CHAIRMAN: The pressure of public opinion in certain provinces for a hospital programme etc., and it was largely due to the persistence of the provinces that the federal government finally came into it, I think. If there are other plans for joint financing that would be appropriate for the economic development of a province which is beyond the province's reasonable financial resources at the time I would think a province could at least try to persuade the federal government to include that in their general programme.

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the federal government to include that in their general

programme.

MR. GALLAGHER: I think that we have been



1 fairly active in attempting to do just this over
2 the past few years and we are in the process of doing
3 it again now.

4 THE CHAIRMAN: I would like further
5 information as to the sort of programme you now have
6 in mind that should supplement this shipping programme
7 and road programme you have been mentioning. If there
8 is to be federal investment in the sort of thing
9 you mentioned today is there anything definite in
10 the minds of the provincial government as to what
11 sort of programme would be useful to economic develop-
12 ment?

13 MR. GALLAGHER: Well, we have had discussions
14 with the federal people from time to time in this
15 regard. We have not been able to develop our
16 proposal to the point where we felt that we had all
17 the answers. We suggested at one stage a proposal
18 whereby there would be some joint participation in a
19 programme of developing taxing centres for certain
20 industrial concerns in this part of the country. It
21 seemed there were certain administrative and technical
22 limitations to the degree to which we could pursue
23 this but we have also developed some suggestions in
24 the light of a shared-cost programme which would involve
25 both governments in the development of facilities
26 for manufacturing because at the present time the
27 province of New Brunswick has a policy whereby it has
28 provided a plant or constructed a plant for a
29 manufacturer wishing to locate in the province. There
30 does not seem to be any real reason why this type of



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provide of new business as a policy whereby it has

provided a plant or constructed a plant for a

manufacturer wishing to locate in the province. There

does not seem to be any real reason why this type of



1 programme could not be continued on a joint basis
2 with the federal government involved.

3 But along with our suggestion in terms of
4 this type of approach we have also suggested that we
5 feel that the federal government and the resources
6 in terms of personnel etc., that they have available
7 to them would be extremely useful and helpful in
8 determining just what type of programme would have
9 the most suitable economic impact for our requirements.

10 HON. MR. DesBRISAY: We have suggested to
11 one government body that they consider guaranteeing
12 some capital loans. This was not met. We have no
13 facilities for that. This is the type of loan that
14 is beyond our financial practical resources for
15 keystone, cornerstone industries. There is no
16 institution in New Brunswick and we just do not have
17 the financial structure to do it. I think this is in
18 the field of monetary policy and should be developed
19 jointly.

20 This is partly as the result of having
21 Professor Cairncross and his explanation of what
22 was happening in some other countries of the world
23 where the federal government was realizing that
24 industrial development is not only a regional problem
25 but it has to be approached on a national basis.

26 While we do not have any specific areas or
27 specific projects directly at the moment we would like
28 to suggest that the federal government might be
29 prepared to receive some suggestions and we would
30 be quite prepared, as Mr. Gallagher has said, to point
out to you within the next few minutes some very



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1 specific areas where a national policy of aid to
2 industry would be very beneficial to our province.

3 COMMISSIONER BROWN: Do you follow some
4 programme within the province of trying to encourage
5 industries in backward economic areas or do you
6 think industries should be developed in the areas
7 where they are more likely to be successful? This
8 is the whole problem, isn't it, that Canada is a
9 nation, we have got to look at it as a nation and
10 economic development has to surely come in those areas
11 where it is going to be more successful?

12 HON. MR. DesBRISAY: Well, in the case I
13 have mentioned we have industries that are willing to
14 establish here now and they could be economically
15 sound.

16 COMMISSIONER BROWN: But they have to have
17 some help?

18 HON. MR. DesBRISAY: They have to have some
19 major financial assistance.

20 COMMISSIONER BROWN: Where would they be
21 established in the province?

22 HON. MR. DesBRISAY: In these areas where
23 they could be most economically operated.

24 COMMISSIONER BROWN: There is my point and
25 that is that these are probably going to be areas
26 that are fairly successful now, are they not?

27 HON. MR. DesBRISAY: In certain cases, others
28 not. Some of these are based on natural resources
29 and they have to go to the source of the natural
30 resources.



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1 COMMISSIONER BROWN: In that case then you
2 would increase the disparity in economic development
3 within your own province?

4 HON. MR. DesBRISAY: In certain cases. In
5 other cases there are certain industries that could
6 be located anywhere.

7 COMMISSIONER BROWN: Because of natural
8 resources?

9 HON. MR. DesBRISAY: No, apart from that
10 there are certain industries that could be located
11 in any part of the province without having any serious
12 economic effect on the industry and they might very
13 well go wherever they might be located and, of course,
14 from our point of view we would like to diversify
15 these as much as possible but the first consideration
16 is the most important, is it a profitable industry.
17 That is the first consideration.

18 THE CHAIRMAN: If it is a profitable industry
19 and it is impossible to borrow money on the market
20 for some reasons could the Industrial Development Bank
21 be able to fill in the gap?

22 HON. MR. DesBRISAY: No. At the moment our
23 answer is no.

24 THE CHAIRMAN: Have you investigated that?

25 HON. MR. DesBRISAY: Yes, we have directly.

26 THE CHAIRMAN: What is the difficulty there?

27 HON. MR. DesBRISAY: They do not go to the
28 size of money that is required. Their largest loan,
29 I believe, is in the neighbourhood of \$4 million or
30 \$5 million. It is a very low figure.



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I believe, is in the neighbourhood of \$2 million or

it is a very big figure.



1 THE CHAIRMAN: What sort of industry are
2 you contemplating that would go beyond that figure?

3 HON. MR. DesBRISAY: Some resources based
4 industries.

5 COMMISSIONER MacKEEN: A smelter, for
6 instance?

7 HON. MR. DesBRISAY: That might be one.
8 There are a number of others.

9 COMMISSIONER MACKINTOSH: You are confident
10 that there is a substantial unrealized economic
11 potential here that if developed ---

12 HON. MR. DesBRISAY: We have tremendous
13 resources in the province which are undeveloped at the
14 moment and which will be developed in time. It is
15 going to take a number of things to do it. One of
16 the things we are talking about is money this morning
17 but another is management. Money is not the complete
18 answer.

19 COMMISSIONER BROWN: What was the second
20 one?

21 HON. MR. DesBRISAY: Management.

22 COMMISSIONER BROWN: It is not just the
23 availability of money itself or the cost of money ---

24 HON. MR. DesBRISAY: That is not the only
25 factor. That is one of the factors.

26 COMMISSIONER BROWN: But management is the
27 other main ingredient?

28 HON. MR. DesBRISAY: Another. I do not say
29 it is the main but it is equally important.

30 COMMISSIONER BROWN: This is something that



THE CHAIRMAN: What sort of industry are
 you contemplating that would go beyond that figure?
 HON. MR. DEARBAY: Some resources based

COMMISSIONER MACKINOSH: A smaller, for

instances?

HON. MR. DEARBAY: That might be one.

There are a number of others.

COMMISSIONER MACKINOSH: You are confident

that there is a substantial unrealized economic

potential here that is developed ---

HON. MR. DEARBAY: We have tremendous

resources in the province which are undeveloped at the

moment and which will be developed in time. It is

going to take a number of things to do it. One of

the things we are talking about is money this morning

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it is the main, but it is equally important.

COMMISSIONER BROWN: This is correct.



1 is not always recognized.

2 HON. MR. DesBRISAY: Just as a matter of
3 interest we have 50 per cent of our total land area
4 in New Brunswick, Crown land, owned by the province.
5 This is round figures.

6 COMMISSIONER LEMAN: That is an asset.

7 HON. MR. DesBRISAY: Of course. Being
8 utilized it probably could be more productive as
9 some of the nations of the world have shown with this
10 type of asset.

11 COMMISSIONER BROWN: You mention the I.D.B.
12 I gather you would like to see the I.D.B. more regionally
13 conscious as far as development in New Brunswick is
14 concerned. You have your own development department
15 which makes advances on a somewhat smaller basis
16 than the I.D.B.?

17 HON. MR. DesBRISAY: Yes.

18 COMMISSIONER BROWN: The I.D.B. function
19 has increased quite considerably in the last few years.
20 Has yours continued to function on the same level as
21 before or has it decreased? I notice Professor
22 Cairncross mentions that in Nova Scotia the provincial
23 grants have decreased considerably since they began
24 in the I.D.B.?

25 HON. MR. DesBRISAY: Ours have increased.
26 This is from memory but ours have increased in spite
27 of the increase in industrial bank loans. The I.D.B.
28 have done a very good job regionally but they are
29 limited. They are within certain limits and the
30 things we are talking about are beyond the limits of

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1 the present functions of the I.D.B.

2 THE CHAIRMAN: Suppose their limits were
3 increased, is that the sort of organization that would
4 be able to deal with the problem that you are present-
5 ing?

6 HON. MR. DesBRISAY: Yes, I think so.

7 THE CHAIRMAN: So that there is an organization
8 that has some experience in financing enterprises
9 which apparently for one reason or another are unable
10 to obtain funds from the ordinary sources and apparently
11 have had quite a successful record so far. If their
12 powers were increased to take care of the type of
13 situation you have in mind you think that might be an
14 appropriate institution to do the job?

15 HON. MR. DesBRISAY: That is correct. They
16 now have a complete organization and I can visualize
17 could be extended to take care of this but we as a
18 province do not want to set up an organization to
19 compete with them.

20 COMMISSIONER BROWN: You co-operate with
21 it now?

22 HON. MR. DesBRISAY: Oh yes, very much so.

23 THE CHAIRMAN: There may be certain dangers
24 in getting involved with the provinces financially?

25 COMMISSIONER BROWN: To what extent do you
26 co-operate now?

27 HON. MR. DesBRISAY: As an example, before
28 any industrial loan is made before the board they are
29 urged to approach the chartered banks, first, in the
30 normal way and the I.D.B. and we co-operate very closely.



1 They go there first.

2 COMMISSIONER BROWN: Are you paying out
3 roughly the same amount as the I.D.B.?

4 HON. MR. DesBRISAY: We do not pay out any
5 money; we guarantee only chartered bank loans.

6 COMMISSIONER BROWN: Not on a loan basis?

7 HON. MR. DesBRISAY: No, we guarantee only.

8 COMMISSIONER GIBSON: With regard to the
9 I.D.B. you advocate that in times of tight money --
10 and I am not sure if there was a suggestion at other
11 times too -- that the I.D.B. should make money
12 available to users in the Atlantic provinces at lower
13 rates than the rest of the country, and make it more
14 available than in the rest of the country. Would you
15 elaborate on this a little? I am not quite clear
16 how far you are going in this proposal?

17 HON. MR. DesBRISAY: This has been done
18 in other countries.

19 COMMISSIONER GIBSON: Lower interest rates
20 or greater availability?

21 HON. MR. DesBRISAY: Greater availability --
22 both: In southern Italy they have been able to adjust
23 their banking system to suit this condition. They
24 have done it in northern Norway and in some other
25 countries. While we don't have any specific formula,
26 we suggest this as a possibility that the federal
27 government and the Bank of Canada should explore.

28 COMMISSIONER GIBSON: Are you suggesting
29 this is a possibility to apply only when credit is
30 scarce and difficult to get, or as a general proposition?



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roughly the same amount as the I.D.B.?

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Government and the Bank of Canada should explore.

that in a year or so to enable them to obtain in



1 HON. MR. DesBRISAY: As a general proposition
2 for national economic development.

3 COMMISSIONER GIBSON: So this is not so
4 much a cyclical proposition as a long-term proposition?

5 HON. MR. DesBRISAY: It is probably both.

6 COMMISSIONER GIBSON: Professor Cairncross
7 made a proposal in a much similar direction so far
8 as the banks were concerned. He did not suggest the
9 rates of interest should be any different from one
10 area of the country to another. In this particular
11 case you are suggesting the rates of interest as well
12 as the availability of credit should be lower: Would
13 you envisage the I.D.B. having some difficulties of
14 applying this policy?

15 HON. MR. DesBRISAY: This type of organization
16 has applied it in other areas.

17 COMMISSIONER GIBSON: I am referring only
18 to the interest rate side of it.

19 HON. MR. DesBRISAY: They do it in England.

20 MR. GALLAGHER: You are suggesting an
21 element of subsidy, and I cannot see any reason why
22 if on a short run in response to a rise in interest
23 rate nationally, if it were considered that such
24 increases in interest rates would not be appropriate
25 to the steady level of economic activity in the
26 Atlantic region -- there is no real reason why the
27 I.D.B. rate should rise.

28 COMMISSIONER GIBSON: As long as the
29 principle is quite explicit and you don't get a burying,
30 because if that is the reason, the same argument should



HON. MR. DEAN:

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made a proposal in a much similar direction so far as the banks were concerned. He did not suggest the rates of interest should be any different from one area of the country to another. In this particular case you are suggesting the rates of interest as well as the availability of credit should be lower. Would you envisage the I.D.B. having some difficulties of

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COMMISSIONER GIBSON: I am reluctant only

HON. MR. DEAN: They do it in England.

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element of security, and I cannot see any reason why it on a short run in response to a rise in interest rate nationally, if it were considered that such increases in interest rates would not be appropriate to the steady level of economic activity in the Atlantic region. There is no real reason why the I.D.B. is not doing this.

COMMISSIONER GIBSON: As I have said, no



1 apply to any other area in a similar position.

2 MR. GALLAGHER: Right. We are not holding
3 up the Atlantic region to be unique in other than
4 one fashion, that it is undoubtedly the part of Canada
5 which lags further behind the national aggregate
6 statistics.

7 THE CHAIRMAN: Yes, but what you are saying
8 is that the sort of industry you are contemplating is
9 one that could be set up on an economic basis, but it
10 would not be a deficit industry. It would be a
11 substantial industry; it would have a great impact
12 upon the economy of the country, but nevertheless
13 that it would eventually be a paying proposition and
14 would not eventually have to rely on the government
15 funds at all.

16 MR. GALLAGHER: We would hope this would be
17 the case, that all subsidies involved in industrial
18 location would be as temporary as possible and that
19 you would not have to continue the subsidies in the
20 same way you subsidize continuously a fair proportion
21 of Canadian industry at the present time.

22 COMMISSIONER MacKEEN: Mr. Gallagher, do you
23 think a differential in interest rates between $5\frac{1}{2}$ or
24 6 or $6\frac{1}{2}$ per cent to provide working capital for an
25 industry would be of sufficient importance to make
26 much difference in their success or otherwise?

27 MR. GALLAGHER: Well, I have never been
28 convinced that interest rates were all that effective
29 in the position of making progress in business, but on
30 the other hand it would not hurt when you have a problem



apply to any other area in a similar position.

MR. GALLAGHER: Right. We are not holding

on the Atlantic region to be unique in other than one fashion, that it is undoubtedly the part of Canada which lags further behind the national aggregate statistics.

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COMMISSIONER MACKENZIE: Mr. Gallagher, do you

think a differential in interest rates between 2 1/2 or

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much difference in their success or otherwise?

MR. GALLAGHER: Well, I have never been

convinced that interest rates were all that effective



1 like we have here that you try to inject all the
2 environmental factors so they work in the direction
3 of pulling industry in, and if this had only minor
4 effect it would not hurt.

5 COMMISSIONER MacKEEN: If it is going to
6 be a failure at $6\frac{1}{2}$, it is likely to be a failure at
7 $5\frac{1}{2}$, is the point I am making.

8 MR. GALLAGHER: And I am inclined to agree
9 that the rate of interest alone is not particularly
10 decisive.

11 COMMISSIONER MacKEEN: The availability of
12 money is a different thing.

13 MR. GALLAGHER: Right.

14 COMMISSIONER MacKEEN: I think that is more
15 important.

16 COMMISSIONER BROWN: Do municipalities offer
17 tax incentives for industries to establish?

18 MR. ALLEN: Yes, they do -- a great many
19 of them.

20 COMMISSIONER BROWN: What sort of tax
21 incentives?

22 MR. ALLEN: There are two categories: Either
23 one that is based on a fixed valuation or a fixed tax.

24 COMMISSIONER BROWN: These are permitted
25 by the provincial government?

26 MR. ALLEN: They must apply to the provincial
27 legislation and get authority through a special act.

28 HON. MR. DesBRISAY: This has developed
29 into a scramble between municipalities in the same
30 way as it has between provinces.



1 COMMISSIONER BROWN: So, everything cancels
2 out.

3 THE CHAIRMAN: Well, in the long run it
4 might.

5 HON. MR. DesBRISAY: We know cases where
6 an industry has located in another province rather
7 than this because of the taxation which we could not
8 compete with, and this is happening in our municipalities
9 today. Our municipalities are fighting -- not fighting
10 but competing amongst themselves: Who is going to
11 give the biggest tax incentive for the location of
12 the industry.

13 THE CHAIRMAN: You consider it an unsound
14 way of doing business, do you?

15 HON. MR. DesBRISAY: It has to be an
16 influence.

17 THE CHAIRMAN: I would think so.

18 COMMISSIONER MacKEEN: On the other hand,
19 if there is an industry contemplating going into a
20 school section with a very low assessment, if they
21 haven't some protection they are very apt to find
22 themselves paying for the whole cost of a rather
23 extensive school building, are they not?

24 HON. MR. DesBRISAY: That is true. There
25 probably should be some fixed ceiling, but some of
26 our long-term fixed assessments are highly competitive
27 amongst the municipalities.

28 THE CHAIRMAN: Yes, as the tax rates go up
29 certain industries stay on the old rate?

30 HON. MR. DesBRISAY: That is right.



COMMITTEE

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our long-term fixed assessment are highly competitive

amongst the municipalities.

THE CHAIRMAN: Yes, but the law seems to up

certain limitations day on the old rate?

HON. MR. DEAN: That is right.



1 THE CHAIRMAN: That is what happens, isn't
2 it?

3 HON. MR. DesBRISAY: Surely.

4 THE CHAIRMAN: Well, you also have a couple
5 of paragraphs here dealing with agriculture and
6 financing, the availability of funds to smaller types
7 of farms: We met this problem in many other provinces,
8 and there is the Canadian Farm Credit Co-operative,
9 and the New Brunswick Farm Settlement Board, and then
10 there is the Farm Loans Improvement Act, and you suggest
11 that in spite of all those institutions there is still
12 insufficient provision; is that the effect of it?

13 MR. GALLAGHER: I am not certain we suggested
14 that.

15 THE CHAIRMAN: Greater flexibility is what
16 you are getting at.

17 MR. GALLAGHER: Yes, I think our general
18 impressions are that the availability of credit to
19 farms which would be considered, say, economic --
20 that there is sufficient credit available from these
21 resources and from the various private sources as well,
22 but there are some cases involving the administration
23 of the loans themselves in which the rigidities of
24 administration have constituted a problem to the farmers
25 being able to repay the loans even though the farms
26 are reasonably sound. I think one thing our agricultural
27 people have discussed is the possibility of relating
28 to some extent repayments of loans to production in
29 the same manner we do in the fishing industry. We
30 have had a number of problems whereby because of the



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HON. MR. DEBRISSAY: Surely.

THE CHAIRMAN: Well, you also have a couple

of paragraphs here dealing with agriculture and

financing, the availability of funds to smaller types

and there is the Canadian Farm Credit Co-operative.

and the New Brunswick Farm Settlement Board, and then

there is the Farm Loans Improvement Act, and you suggest

that in spite of all those institutions there is still

insufficient provision; is that the effect of it?

MR. GALLAGHER: I am not certain we suggested

that.

THE CHAIRMAN: Greater flexibility is what

you are getting at.

MR. GALLAGHER: Yes, I think our general

impressions are that the availability of credit to

farms which would be considered, say, economic --

that there is sufficient credit available from these

resources and from the various private sources as well.

but there are some cases involving the administration

of the loans themselves in which the rigidity of

administration have constituted a problem to the farmers

being able to repay the loans even though the farms

are reasonably sound. I think one thing our criticisms

people have discussed is the possibility of relating

to some extent repayments of loans to production in

the same manner we do in the fishing industry. We

have had a number of problems whereby because of the



1 very extremely late spring farmers in certain areas
2 have not been able to get crops in, and as a result
3 have had some very difficult problems with the agencies
4 from whom they borrowed. But it may well be that as
5 the farm credit co-operative is not all that old --
6 its experience is only relatively short, and it may
7 develop something along these lines naturally. I don't
8 think we were questioning the availability of money.
9 We were trying to look at the administration problems.

10 COMMISSIONER MacKEEN: Mr. DesBrisay, there
11 was one point I was very interested in in reading
12 the brief, and that is at certain periods when there
13 appears to be over-expansion in certain provinces
14 of Canada, to counteract that the bank's policy
15 or the government's policy is to curtail credit in order
16 to slow down excessive expansion. That same situation
17 may not apply in other provinces, but the same curtail-
18 ment applies generally throughout the nation, and
19 your suggestion is that that could be and should be
20 avoided in some way. I would be interested in hearing
21 if you would enlarge on that as to how it could be
22 done?

23 HON. MR. DesBRISAY: Going back, I think
24 this has been done. This was partly based on Cairncross's
25 theme -- his report that there should be some vehicle.
26 We have not suggested any specific means of doing it,
27 but I will ask Mr. Gallagher to expand on that.

28 MR. GALLAGHER: I think almost everyone
29 will agree it is rather a difficult problem to assess
30 just to what extent there is some differential impact



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experience -- his report that there would be some trouble.

We have not suggested any specific mode of doing it.

but I will ask Mr. Gallagher to expand on that.

MR. GALLAGHER: I think almost every

will agree it is rather a difficult problem to assess

just to what extent there is some differential impact



1 in a region like this resulting from a national policy
2 of credit restraint. We have started on the premise
3 that given the type of economy we have here and the
4 rate of growth we have been getting that it would be
5 inconceivable that any form of credit restraint applied
6 in this area would be really required, and we have gone
7 from there to the point where some form of policy must
8 be developed in order to shelter the region from the
9 effects of such a national policy if the policy is
10 considered to be inappropriate to the needs of the
11 province and the region.

12 We discussed this with the people in the
13 Bank of Canada, and of course the Bank of Canada annual
14 reports have stated fairly explicitly there is no way
15 in which certain types of borrowers or certain regions
16 can be -- no way in which monetary policy could be
17 altered to give preference to regions like ours. Some
18 suggestions have been made in the direction of setting
19 up a regional banking system along the lines of that of
20 the United States where we would have a central bank
21 operating in a region. We have had a look at this,
22 and we are inclined to doubt you would be able to do
23 this in Canada. It would seem to me to be rather a
24 difficult operation for a central bank to try and
25 effect a stock of money in the region or effect interest
26 rates when you don't have a money market of any type.
27 So, we have been looking at alternatives, and we have
28 come to the conclusion with the help of people like
29 Professor Cairncross, through the use of more selective
30 instruments of monetary policy that some strides might
be taken to achieve the effect of sheltering the region.



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1 Cairncross suggested, and we are inclined to support
2 this, that the Bank of Canada should use its powers of
3 persuasion, however extensive they may be, with the
4 chartered banking system in order to instruct the banks,
5 if that is the proper word, that any national policy
6 of credit restraint should not be applied in this part
7 of the country.

8 We feel probably in addition to this we
9 have had to look at the I.D.B. and felt that by altering
10 the nature of its operations in the short term it
11 could have the effect of offsetting national policy of
12 credit restraint which was making money less available
13 to certain classes of borrowers. This was the basis
14 for the thinking in regard to the differential interest
15 rate level, and that I.D.B. might put into effect.
16 We have also felt that the same effects could be achieved
17 by adopting policies of a similar nature, say, by the
18 Central Mortgage and Housing Corporation. This is the
19 type of sort of selective instrument, and probably falls
20 into the area of fiscal policy, undoubtedly, but it is
21 in fact a monetary approach.

22 COMMISSIONER MACKINTOSH: Did you in fact
23 find that the federal reserve system organized in 12
24 districts did produce a differential in rates?

25 MR. GALLAGHER: There have been cases of
26 differentials existing. They don't normally exist for
27 too long a period of time.

28 COMMISSIONER MACKINTOSH: They don't all
29 work simultaneously?

30 MR. GALLAGHER: No.

COMMISSIONER MACKINTOSH: But there is no



1 very persistent differential except that interest rates
2 are higher in some of the more remote districts and
3 lower towards the big money markets?

4 MR. GALLAGHER: That is right, and that
5 is true of rates generally aside from discounts and
6 that kind of thing.

7 COMMISSIONER MACKINTOSH: So there is not
8 really any presumption that developing 5 or 10 Banks
9 of Canada -- which, God forbid -- would produce regional
10 differentials?

11 MR. GALLAGHER: We haven't been inclined
12 to pursue this form of solution.

13 COMMISSIONER LEMAN: Isn't it true in the
14 United States they are drawing away from differential
15 bank rates? They used to have differential bank rates --
16 discount rates -- and they are drawing away from that?

17 MR. GALLAGHER: Generally, I gather this is
18 true, yes.

19 COMMISSIONER LEMAN: Mr. DesBrisay, I have
20 another point I would like to ask a question about:
21 In paragraph 118 you suggest: "Certainly, some attempt
22 must be made to at least have the effects of monetary
23 policy felt by the consumer finance companies and other
24 non-bank holders of liquid assets." Some of these
25 finance companies have already appeared before this
26 Commission and they sort of felt that they were sensitive
27 to these movements of monetary policy. What sort of
28 night-stick did you mean to equip us with?

29 MR. GALLAGHER: I don't think any whipping
30 action is intended. If you go back over the past five

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COMMISSIONER LEWIS: Isn't it true in the

United States they are working away from differential

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discount rates -- and they are working away from that?

MR. GALLAGHER: Generally, I gather this is

more, yes.

another point I would like to ask a question about:

In paragraph 118 you suggest: "Consequently, some attempt

must be made to at least have the effects of monetary

policy felt by the common finance corporations and other

non-bank holders of liquid assets." Some of these

finance companies have already reported before this

Commission and they sort of tell that they were sensitive

to these movements of monetary policy. What sort of

right-privilege did you mean to refer to with?

MR. GALLAGHER: I don't think any right-privilege

is involved. If you go back over the past five



1 or six years the behaviour of the credit extended by
2 consumer finance companies I don't believe would indicate
3 they were very responsive to the type of policies that
4 were being pursued by the Bank of Canada. I think one
5 of the annual reports of the Bank of Canada has contended
6 that this type of broadening of the impact of its policies
7 would be desirable. We are inclined to agree. I am
8 not familiar with the argument expressed by the consumer
9 finance companies that they are sensitive to monetary
10 policy. I would be inclined to doubt they are to any
11 significant extent.

12 COMMISSIONER LEMAN: What means would you
13 suggest to use to make them feel the effects of monetary
14 policy -- what specific tools would you have in mind?

15 MR. GALLAGHER: I would be inclined to
16 believe that control of this type, or bringing this
17 type of institution within the area where they are under
18 the control of monetary policy would probably involve
19 the development of some administrative controls to be
20 implemented by the Department of Finance. This may
21 well be a much more difficult thing to achieve than
22 it would be by just moving interest rates up or down.

23 COMMISSIONER MACKINTOSH: What do you mean --
24 for example, controlling down-payments?

25 MR. GALLAGHER: This type of approach. The
26 British have developed some controls in this area.

27 COMMISSIONER BROWN: Would you suggest the
28 Atlantic provinces should be exempted in this situation
29 too?

30 MR. GALLAGHER: I have not suggested.



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1 COMMISSIONER BROWN: But I am asking now,
2 you are the one that said that.

3 MR. GALLAGHER: I do not really know. If
4 we can assume that all these loans are being taken out
5 in order to increase the purchases of consumer durables,
6 say, in Ontario, then I cannot see any sound economic
7 reason for exempting them.

8 COMMISSIONER BROWN: Cairncross in his
9 paper, as I understood it, rather played down the
10 detriment to this area because of the monetary restrictions
11 on the banks. He rather came up with the conclusion
12 that this may have had a very small effect but it was
13 not really a large factor?

14 MR. GALLAGHER: I believe, if I recall
15 correctly, he indicated that he could not find any large
16 number of cases whereby production and employment had
17 been affected by virtue of, say, tight money being
18 implemented through the chartered banking system. I
19 think this is essentially what he said. He did, however,
20 go on to make the suggestion that some bank, presumably
21 the Bank of Canada, should exhort the chartered banks
22 not to apply with the same type of vigour a policy of
23 credit restraint in this region that they would apply
24 elsewhere.

25 This is a field in which I do not have any
26 specific answers and I do not think anybody does as
27 to the question of to what extent within a region like
28 ours we would feel the force of monetary restraint more
29 than it is felt nationally.

30 Cairncross said that he could not find very

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than it is felt nationally.



1 many cases. There have been a number of theoretical
2 arguments developed which would indicate that at least
3 theoretically this should be the result, that regions
4 like this should feel credit restraint with much greater
5 force. People like Galbraith have written along these
6 lines.

7 We have formed the judgment that it probably
8 does, that credit restraint would have a greater impact
9 down here than it is likely to have in other parts
10 of the country.

11 COMMISSIONER BROWN: Not necessarily a greater
12 impact but a more unnecessary impact.

13 MR. GALLAGHER: Well, both unnecessary --
14 any impact on monetary policy which was designed to slow
15 down the pace of expansion nationally we feel, first of
16 all, that this policy would not be appropriate down
17 here at all to any degree but that the degree to which
18 monetary policy is effective -- and I have some reservations
19 of the effectiveness of monetary policy for achieving
20 these objectives -- is probably more effective here
21 than elsewhere.

22 COMMISSIONER BROWN: I rather got the opposite
23 impression from reading Cairncross.

24 COMMISSIONER MACKINTOSH: Didn't Cairncross
25 go on with a more positive statement that while he found
26 some small effect of the direct influence of the higher
27 rates here, much the greater effect was the direction
28 of New Brunswick markets elsewhere because of the higher
29 rates there.

30 MR. GALLAGHER: Well, there is always the



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MR. GALLAGHER: Well, there is always the



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- 2063 -

possibility that given the fact that Cairncross found only a small number of cases if he had looked longer and harder he might have found many more.

COMMISSIONER BROWN: I think if the effect had been general he would have found more.

MR. GALLAGHER: Pardon?

COMMISSIONER BROWN: I think if the effect had been general he would have found more.

MR. GALLAGHER: I would be inclined to agree.

COMMISSIONER MACKINTOSH: I think we have to admit that it is fairly difficult to find specifically an unquestionable incident anywhere in Canada where you could say because the rate was $6\frac{1}{2}$ it did not go and if it had been 6 it would have gone.

MR. GALLAGHER: That is a minor factor even in the Atlantic region.

COMMISSIONER MACKINTOSH: It is hard to tell because it is added in to all the factors.

MR. GALLAGHER: But I think there might well be some logic in concluding that if the policy is designed to increase the cost and has the effect of developing a rationing process whereby credit is not as available as it was as far as the cost is concerned I do not think this is as important a factor, at least not as important as the question of availability. And then if you can conclude that larger firms because of equity capital can borrow nationally and that the small firms in New Brunswick do not have this alternative there might be forced upon them a disadvantage to some extent. There may be some logic in the theory that an area which is

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be forced upon them a disadvantage to some extent. There

is some logic in the theory that an area which is



1 populated with a great number of small firms would feel
2 the force of this credit rationing process to a greater
3 extent than a more populated area. I don't know how
4 far you could prove this but I think this is the general
5 thinking that lies behind what has been included in
6 the brief.

7 COMMISSIONER BROWN: I notice just at the
8 end of your brief you come out in favour of a National
9 Securities Act. Do you see any constitutional problems
10 in arriving at this?

11 HON. MR. DesBRISAY: This is as a result
12 of experience we have had with some of the other provinces.
13 We find that legislation is varying greatly throughout
14 the provinces of Canada and the Attorneys-General of
15 the provinces are presently working on this problem. I
16 have not seen recently whether they have come to any
17 final conclusion but there seems to be an area which
18 could be explored. Constitutionally I am not prepared
19 to say.

20 COMMISSIONER BROWN: What argument do you
21 see against it?

22 HON. MR. DesBRISAY: Against having national
23 control?

24 COMMISSIONER BROWN: Yes.

25 HON. MR. DesBRISAY: We are in favour of it.
26 We do not have any argument.

27 COMMISSIONER BROWN: You are not prepared to
28 put up anything against it?

29 HON. MR. DesBRISAY: No.

30 THE CHAIRMAN: If necessary would you approve



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HON. MR. DESBRIAY: No.

THE CHAIRMAN: It is necessary would you



1 of a constitutional amendment?

2 HON. MR. DesBRISAY: If it had to go that
3 far, sir, I believe we would seriously consider it.
4 It is certainly an area which has been unexplored and
5 we feel at the the present because there is a great
6 variety of legislation existing in the provinces and
7 as a result it is hard. Undoubtedly what has happened
8 in some parts of the west has done some damage to our
9 market here in New Brunswick.

10 COMMISSIONER MACKINTOSH: In some of the
11 other provinces we were given to understand that now
12 that New Brunswick had put its house in order there
13 were very little problems and that the provinces were
14 fairly standard.

15 HON. MR. DesBRISAY: We have a very difficult
16 time putting our house in order when people can dictate
17 what we do when they are sitting in Toronto through the
18 stock exchange. We had one very interesting experience
19 in this regard not too long ago.

20 COMMISSIONER BROWN: In what way?

21 MR. GALLAGHER: Where one of the stocks of
22 a New Brunswick based company, or at least where the
23 operating property was in New Brunswick was taken off
24 the exchange. This is the sort of thing that obviously
25 would give us some kind of difficulty and sort of give
26 our reputation another kick when it was clearly beyond
27 our control.

28 COMMISSIONER BROWN: Isn't this one of the
29 problems you get if you have central control with a
30 bureaucratic organization that takes action without

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1 recourse?

2 MR. GALLAGHER: This is the effect in any
3 highly centralized system but as it applies now with
4 all sorts of legislation applying on a very broad
5 basis by individual governments some element of
6 centralization would be called for.

7 COMMISSIONER BROWN: You would rather trust
8 Ottawa than Toronto.

9 THE CHAIRMAN: They are both in Ontario.

10 HON. MR. DesBRISAY: I think if we had a
11 federal agency without too many controls we would be
12 prepared to disseminate the information across the
13 province.

14 THE CHAIRMAN: Without too many controls?

15 HON. MR. DesBRISAY: Yes.

16 THE CHAIRMAN: Have you ever known of a body
17 set up for that purpose that limited itself to the
18 appropriate number of controls?

19 HON. MR. DesBRISAY: This might be an
20 arm of the Department of Finance or of the Bank of
21 Canada or some other financial institution that could do
22 this but I think generally the other provinces we have
23 spoken to find the same difficulty. We are exchanging
24 information right now with Saskatchewan. We have no
25 machinery to do this. We are not suggesting rigid
26 controls but full information and standardization of
27 securities fraud prevention acts.

28 THE CHAIRMAN: Well, thank you very much,
29 Mr. DesBrisay and gentlemen. The brief has been very
30 interesting and I think the discussion has been very



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THE CHAIRMAN: Well, thank you very much.

Mr. Desbriay and gentlemen. The brief has been very

interesting and I think the discussion has been



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- 2067 -

1 useful indeed.

2 We shall now adjourn until tomorrow morning
3 at 9.15 when we shall hear the brief of the Atlantic
4 Provinces Economic Council.

5 HON. MR. DesBRISAY: Mr. Chairman, should
6 there be anything further you wish from the province
7 of New Brunswick we shall be happy to furnish it.

8 THE CHAIRMAN: Thank you very much. We
9 may call upon you for some further information.

10 --- Adjournment.

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We shall now adjourn until tomorrow morning.

at 9.15 when we shall hear the brief of the Atlantic

Provinces Economic Council.

HON. MR. DEWEES: Mr. Chairman, should

there be anything further you wish from the province

of New Brunswick we shall be happy to furnish it.

THE CHAIRMAN: Thank you very much. We

may call upon you for some further information.

6

Royal Commission on Banking and Finance

Hearings
held at
Fredericton

Vol.	Volume Number	Date.
20	20th Annual Report	June 5 1962



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J.J. Nethercut and R.J. Young
Toronto, Ont.



PROSECUTION, AND VOUCHERS
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Nethercut & Young
Toronto, Ontario

Fredericton, New Brunswick
Tuesday, June 5th, 1962.

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

Page No.

Atlantic Provinces
Economic Council

2069



ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Fredericton,
New Brunswick, on Tuesday
June 5th, 1962

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Fredericton,
New Brunswick, on Tuesday
June 27th, 1952

THE COMMISSION

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Chief Justice of Ontario

Mr. W. Thomas Brown, M.A.,
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Stewart
Assistant
Calgary, Alberta

Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Macdonald
Professor
Queen's University
Kingston, Ontario

Mr. H.A. Hampton

Mr. Gilles Mercure



Fredericton, New Brunswick
Tuesday, June 5th, 1962.

--- On resuming at 9.15 A.M.

THE CHAIRMAN: We have the brief this morning of the Atlantic Provinces Economic Council. I believe Professor Smith will present the brief.

SUBMISSION OF THE ATLANTIC PROVINCES
ECONOMIC COUNCIL

APPEARANCES

Professor W.Y. Smith	- President
Mr. Arthur Parks	- Director of Research
Mr. Nelson Mann	- Executive Director

--- Professor Smith reads summary.

COMMISSIONER MACKINTOSH: Professor Smith, I wonder, as a matter of background, whether you would expand a little on the Atlantic Provinces Economic Council? What relation, if any, has it to the provincial government?

PROFESSOR SMITH: We are completely independent of the provincial governments. We draw a grant from the province of Newfoundland. That is the only provincial funds we get. At the present time our revenues are about \$110,000. The great bulk of this, all but \$16,000 which we get from Newfoundland, comes from contributions within the region. So, we are an independent body completely. We are associated with

Frederickton, New Brunswick

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Mr. Wilson - Executive Director

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contributions within the region. So, we are an

independent body financially. We are associated with



1 the government on the Atlantic Provinces Research Board.
2 This is a research organization that was set up by
3 the four provinces, and Mr. Parks, who is our director
4 of research, is the secretary of the board.

5 COMMISSIONER MACKINTOSH: The provinces as
6 such do not participate in the Council except
7 Newfoundland; is that right?

8 PROFESSOR SMITH: That is right, sir.
9 We are an independent body completely.

10 MR. MANN: Mr. Chairman, may I speak to that
11 for a moment?

12 THE CHAIRMAN: Yes.

13 MR. MANN: The province of Newfoundland's
14 contribution is now 12. The reason for the Newfoundland
15 contribution and participation is on behalf of industry.
16 It is not on behalf of itself. I think this is
17 important to understand. We have some 380 odd members
18 in Newfoundland, representing Newfoundland, and instead
19 of APEC getting contributions from them the government
20 of Newfoundland pays for them. So, for the record,
21 I think it should be made clear that really the
22 government of Newfoundland are paying for the industrial-
23 ist, and therefore the members of APEC are all free
24 and independent of government completely.

25 COMMISSIONER MacKEEN: Perhaps you would tell
26 the Commission what your total membership is?

27 MR. MANN: It is in excess of 2,000 and these
28 come from all parts of the four provinces, and I might
29 say, Mr. Chairman, a number of these members are from
30 firms whose head office is in central Canada but who do



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1 business down here.

2 COMMISSIONER MACKINTOSH: As I understand
3 one of the main contentions of your brief, it is that
4 the level of economic activity in this region depends
5 on capital investment.

6 PROFESSOR SMITH: To a very great extent,
7 on capital investment.

8 COMMISSIONER MACKINTOSH: This, in turn,
9 depends on business expectations on the one hand and
10 the amount of government capital investment on the other.
11 Now, the implication of this, I take it, is that the
12 Atlantic provinces could -- and if they could -- by
13 what you might call induced investment on either public
14 or private, break out of the circle of relatively low
15 income and low employment. They might, as it were,
16 get into another orbit at another level.

17 PROFESSOR SMITH: This is right, sir.

18 COMMISSIONER MACKINTOSH: What I do not find
19 in your brief, and what interests me, is, what are some
20 of the fundamental disabilities which have kept incomes
21 in the region down and have made business expectations
22 less attractive than elsewhere, and what solid basis
23 is there for the hope that these disabilities can be
24 overcome?

25 PROFESSOR SMITH: Dr. Mackintosh, this is
26 a very good and very valid question. Historically,
27 the history of this region has been very greatly
28 conditioned by the immense capital losses which hit
29 us in the period between 1880 and 1900 due to
30 technological changes and other factors. We did suffer



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as in the period between 1880 and 1900 due to



1 enormous capital losses, but at the same time, looking
2 at the growth of Canada after Confederation, there was
3 certainly a decline in our location advantages. Whereas
4 in 1867 we were situated, say, in the heart of the
5 then industrialized part, by 1939 this situation had
6 completely changed; Canada had filled out; we were
7 on the periphery of a great trans-continental Canada.
8 Also in this period the relative value of our resources
9 declined.

10 COMMISSIONER MACKINTOSH: You mean relative
11 to the resources in other regions?

12 PROFESSOR SMITH: With the opening up of
13 the West -- the opening up Canada -- our resources
14 declined in their relative value. Then, of course,
15 the growth of the tariff had some impact on it. I
16 wish I could quote verbatim from the report you wrote
17 for the Rowell-Sirois Commission. I have on many
18 occasions used what you said on that occasion.

19 COMMISSIONER MACKINTOSH: That is the trouble
20 with the Atlantic provinces: They are always bringing
21 up history.

22 PROFESSOR SMITH: I have in many cases quoted
23 what you said about the impact of the tariff -- that
24 it came just at the wrong time when we were trying to
25 adjust to basic technological changes. Then, of course,
26 in the twentieth century you have the concentration
27 of industry and the growth of monopolistic competition
28 which meant that secondary industry in Canada tended
29 to agglomerate in Ontario and Quebec, and the small
30 Maritime manufacturer found it increasingly difficult



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which meant that secondary industry in Canada would

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1 to compete. There were other factors: The opening
2 of the Panama Canal adversely affected our forest
3 resources; competition from British Columbia not only
4 affected our position in the U.K. but in the markets
5 of the United States seaboard and, indeed, in the
6 markets of eastern Canada itself. So, a whole series
7 of institutional factors and basic economic factors
8 beginning about 1880 have affected our relative position
9 within the national economy. I do think also there is
10 some tendency in any federal system for the institutions
11 to become adapted to the needs of the more rapidly
12 growing regions rather than the regions which are in
13 economic difficulties.

14 COMMISSIONER MACKINTOSH: Let me come at the
15 same viewpoint from another angle: What do you see
16 as the characteristics of an Atlantic economy or an
17 Atlantic area in the Canadian economy which might in
18 present day terms be viable and highly productive?

19 PROFESSOR SMITH: Well, I think that if you
20 look at the changes which are underway in world trade
21 at the present time it is quite possible in the next
22 20 years our location advantages will improve. It would
23 seem to me we must move towards much freer trade in
24 the whole North Atlantic area and that we will have
25 greater access to the markets of the United States than
26 we have had in the past, and to the markets of Western
27 Europe.

28 COMMISSIONER MACKINTOSH: What commodities
29 are you looking at in this possible increase in
30 exports?



1 PROFESSOR SMITH: If you look at the way
2 conditions are developing in Britain and Western Europe
3 you find what is happening in essence is that they are
4 moving into the North American standard of living, the
5 standard of living for many people -- for middle class,
6 if you like to use that phrase -- which we began to
7 get in the late 20's. This means a very great demand
8 for base metals and for pulp and paper. So, I would
9 think our resource industries should find expanding
10 markets in Britain and in Western Europe -- forest
11 products and base metals. We don't feel the resource
12 industries -- the growth in them alone would be
13 sufficient to absorb our labour force -- the increase
14 in our labour force. We think these industries are
15 too capital intensive and that we must have considerable
16 expansion in secondary industry, and that it is possible
17 in this area to build up a secondary industry which is
18 selling quite a substantial amount of its production
19 overseas. It has really been remarkable in the last
20 seven or eight years, the firms in the Atlantic
21 provinces that have been able to open up and develop
22 markets in Western Europe.

23 COMMISSIONER MACKINTOSH: What sort of
24 products?

25 PROFESSOR SMITH: For example, the Chestnut
26 Canoe Company in Fredericton here. It does not make
27 too many canoes now. They really build pleasure craft.
28 They have developed a fairly substantial market in
29 Britain in pleasure craft.

30 Another good example is the McKane Food



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1 Products in the Upper Saint John valley. They have
2 built up very substantial markets for frozen foods
3 in the United Kingdom so we do think it is better
4 to extend our secondary industry.

5 In other words, we do feel that basic
6 changes in world trade in the past 20 years may be
7 in our favour, that we may recover something of the
8 locational advantages we had in the 19th century.

9 But we feel that this won't be enough, that we need
10 specific national policies to help us and accelerate
11 growth. The over-all international situation, the
12 over-all environment in which we are working may be
13 more favourable to us but to take advantage of this
14 situation we feel a new national policy is required
15 and quite frankly our area of regional development
16 has been very much below development in other countries.

17 If you look at Canada we are practically
18 the only country in the western world that has not got
19 comprehensive policies to assist with the accelerated
20 growth of such regions. Practically every country
21 in Western Europe has these policies and, of course,
22 in the United States they have recently passed the
23 Area Re-development Act. This Act only went through
24 Congress in 1961 and it is pretty early to judge its
25 effectiveness but if you look at the sort of policies
26 that have been adopted in Britain and France or in
27 Italy or in Norway you will find that the common
28 denominators of these policies are (1) that the Federal
29 Government has spent very considerable funds to improve
30 the social overhead capital structure. The Italian

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1 Government have spent very substantial funds in
2 Southern Italy improving roads, railway service and
3 in irrigation but in addition to that some direct
4 action has to be taken to spur on more capital develop-
5 ment itself. In other words, it has been found that
6 just giving the social overhead capital structure is
7 not enough. This would help but essentially it is
8 permissive and what is needed is a policy which more
9 directly affects industrial and capital development.

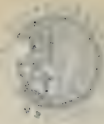
10 Here, policies are usually divided roughly
11 into two categories. One is a programme to develop
12 cornerstone industries. We try to get something really
13 big into six or seven centres in a region which will
14 become the nucleus of growth and industrial concentration.

15 COMMISSIONER MACKINTOSH: I would like to
16 get into that a little later. You feel if some of
17 these measures you recommend are undertaken and under-
18 taken in sufficient mass and volume that self-perpetuating
19 momentum could be developed here?

20 PROFESSOR SMITH: Yes, and I think the social
21 cost of some of the aid we are getting in Canada could
22 be reduced.

23 COMMISSIONER MACKINTOSH: Now, supposing the
24 recommendations that you are making for institutional
25 changes were carried out and they go to work, how will
26 the hoped for multiplier effect of that be contained
27 in the Atlantic provinces?

28 PROFESSOR SMITH: Well, of course, all of it
29 would not be contained but if we developed certain growth
30 nuclei this, of course, in itself will broaden the



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1 market in the region and, of course, one would hope
2 that the industries that are developed -- in fact the
3 policy should ensure that the capital is steered into
4 the industries which have strong linkages within the
5 region. For instance, if we could start something big
6 anywhere, let us say in the Bathurst-Newcastle area
7 in the way of base metal smelting and refining and get
8 a sulphur by-product we would hope you would link from
9 there into chemical products. So that you would try
10 to gear ---

11 COMMISSIONER MACKINTOSH: A lot of industries
12 have sulphurous by-products across the country.

13 PROFESSOR SMITH: But these are very well
14 located. The base metal deposit is right on tidewater
15 with ready access to world markets. It is particularly
16 well located. So that as you get your cornerstone
17 industries you should think in terms of the linkages
18 they would have and, of course, the fact that they would
19 broaden the market itself. Of course, the multiplier
20 itself cannot be contained within the region.

21 COMMISSIONER MACKINTOSH: You suggest a
22 Capital Projects Commission and Capital Fund. How
23 would you envisage that Capital Projects Commission
24 being composed and how would it work? Is this primarily
25 a planning commission?

26 PROFESSOR SMITH: No, we would envisage the
27 Capital Projects Commission itself being a body that
28 would consider projects of all public investment that
29 would be directed to it by the provincial governments
30 and it would study these and would establish priority and

market in the region and, of course, one would hope that the industries that are developed -- in fact the policy should ensure that the capital is steered into the industries which have strong linkages with in the region. For instance, if we could start something like anywhere, let us say in the Bathurst-Hamilton area in the way of base metal smelting and refining and get a sulphur by-product we would hope you would link from there into chemical products. So that you would try

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1 would recommend to the federal government the ones
2 that should be implemented and report on the ones that
3 should not. The planning itself should be done by
4 the provincial government. We are not suggesting it
5 be taken out of their hands but it would be a body which
6 would assess and advise the federal government and
7 establish priorities as regards the public investment
8 projects which would really give a direct stimulus
9 to growth.

10 COMMISSIONER MACKINTOSH: And be concerned
11 entirely with government projects?

12 PROFESSOR SMITH: Yes, this is the Capital
13 Projects Commssion. In addition, as we said, there
14 would be a fund which would be administered by a
15 competent group of people, a group of commercial and
16 businessmen I should hope with some knowledge of commerce
17 and industry and they would consider proposals in regard
18 to cornerstone industries and assistance to their
19 progress.

20 COMMISSIONER MACKINTOSH: The fund then would
21 be of assistance to private industry?

22 PROFESSOR SMITH: Essentially assistance to
23 private industry directly.

24 COMMISSIONER MACKINTOSH: Now, what do you
25 see as the characteristic of these cornerstone plants
26 and how can you tell one if you meet it?

27 PROFESSOR SMITH: Well, if I were assessing
28 a cornerstone industry I would be very concerned about
29 its linkages, that is, the industries that might
30 proliferate around it, the extent to which it produces



Woods, Canada

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1 a product and encourages industry to develop utilizing
2 this product and the extent to which the industry
3 itself establishes a market for other industries.
4 To a certain extent economic growth is organic in nature
5 and one industry tends to create external economies for
6 another. If you develop in a region seven or eight
7 centres of industrial complexes and you get linkages
8 then you will find other industries would proliferate
9 around it with all the other economies that come from
10 skilled labour itself. The industry itself will attract
11 industry.

12 COMMISSIONER MACKINTOSH: It is not easy
13 to select industries which generally turn out to be
14 a cornerstone industry. I can see some possibility of
15 the scriptures being reversed -- the stone which the
16 builders chose which turned out not to be the head of
17 the corner?

18 PROFESSOR SMITH: That is true.

19 COMMISSIONER LEMAN: Have there been quite
20 often a lot of promotional efforts made in the Maritimes
21 that have been unsuccessful? I assume the Council would
22 follow this closely and watch it, wouldn't it?

23 PROFESSOR SMITH: Yes indeed we would.

24 COMMISSIONER LEMAN: Has there been quite a lot
25 of local initiative used to try to provide such keystone
26 industries which have been unsuccessful because of
27 difficulty in raising capital or lack of knowledge of
28 what the market prospects would be?

29 PROFESSOR SMITH: One could think of several
30

This product and the extent to which it is in demand in the market is a factor for consideration. To a certain extent economic growth is organic in nature and one industry tends to create external economies for another. If you develop in a region seven or eight centres of industrial complexes and you get industries then you will find other industries would proliferate around it with all the other economies that come from skilled labour itself. The industry itself will attract

COMMISSIONER MACKINTOSH: It is not easy

to select industries which generally turn out to be

the economies being reversed -- the same which the holders chose which turned out not to be the head of the corner?

PROFESSOR SMITH: That is true.

COMMISSIONER LEWIS: Have there been quite

often a lot of promotional efforts made in the Maritimes that have been unsuccessful? I assume the Council would follow this closely and watch it, wouldn't it?

PROFESSOR SMITH: Yes indeed we would.

COMMISSIONER LEWIS: Now there, even within a for

of local initiative used to try to provide such assistance

industries which have been unsuccessful because of

difficulty in raising capital or lack of knowledge of

what the market prospects would be?

PROFESSOR SMITH: One could claim of course



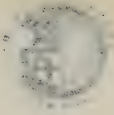
1 instances of keystone industries that might have
2 developed here in the area if more incentive had been
3 held out to them. I cannot think of any keystone
4 industries that have been promoted that proved to be
5 failures in the sense that they got into production and
6 were then complete failures.

7 If you look, say, at the lead-zinc deposits
8 in the Bathurst-Newcastle area it seems to me it
9 would be in the interests of the government of Canada
10 to do anything within reasonableness to encourage the
11 development of a large lead-zinc-chemical complex in
12 that area. An effort is being made to get that
13 underway at the present time and probably will go on
14 and develop but I would say if it turns out that there
15 are particular assistances or incentives needed then
16 the federal government should provide these. It is
17 an area of high unemployment and the social costs are
18 very high and if you can give this sort of aid in the
19 long run it may be less expensive.

20 COMMISSIONER BROWN: What are the obstacles
21 or the objections to private industry establishing such
22 a smelter in that area now?

23 PROFESSOR SMITH: There are no objections and,
24 as I say, a company has been organized to do that but
25 all I say is in a situation like that where the creation
26 of a big industrial complex centre is being promoted
27 it is not an easy thing and if aid is necessary we feel
28 it should be forthcoming. This is the particular point
29 we make.

30 COMMISSIONER BROWN: I was just trying to find



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it should be foreseen. This is the particular point

we make.

COMMISSIONER BROWN: I was just trying to find



1 out why private industry has not established it already.

2 PROFESSOR SMITH: Well, the market for base
3 metals has been very depressed for the last four or five
4 years.

5 COMMISSIONER MacKEEN: This answers the
6 question, doesn't it, that discovery of the mineral
7 resources coincided with a world surplus of the minerals
8 and there has not been much inducement to develop
9 since?

10 PROFESSOR SMITH: That is it, but developments
11 are underway at the present time.

12 COMMISSIONER BROWN: Is there a bit of
13 bargaining going on to wait and see if they can get some
14 assistance before they actually go ahead?

15 PROFESSOR SMITH: No. The province has offered
16 them certain assistance but this is only one example.
17 There are other instances. There is a company very
18 interested in developing the manganese deposits in
19 the Woodstock area. I have talked to some of the
20 executives and here they are and have been held in
21 the past as far as I know by a shortage of capital.

22 I know of a number of large industrial plants
23 during the years that I was economic advisor to the
24 government that could have come in if we had been able
25 to give them the sort of assistance that they needed
26 and that they could have got in many of the countries
27 of Western Europe.

28 COMMISSIONER LEMAN: What has been the history
29 of industry based on forest products?

30 PROFESSOR SMITH: Very good indeed. Our pulp

why private industry has not established it already.

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COMMISSIONER LEWIS: What has been the history

of industry based on forest products?

PROFESSOR SMITH: Very good indeed. Our pulp



1 and paper industry has been growing very rapidly.

2 The productivity of the industry is very high. It is
3 a very highly developed and very efficient industry.

4 COMMISSIONER LEMAN: Do you regard it as a
5 keystone?

6 PROFESSOR SMITH: Oh certainly.

7 COMMISSIONER LEMAN: Is it not easy to build
8 more around it?

9 PROFESSOR SMITH: Well, the pulp and paper
10 industry is a capital intensive industry. If you look
11 at the figures for employment in the resources industry
12 they have been falling because the resources industry
13 is agriculture, forest industries, mining, and they
14 have become more and more capital intensive so we need
15 a very definite attempt to build up cornerstone industries
16 based on labour intensive secondary industry.

17 COMMISSIONER GIBSON: Have you had much
18 expansion of secondary industry related to pulp and paper
19 and other wood products?

20 PROFESSOR SMITH: It has been slow.

21 COMMISSIONER GIBSON: I can think of one or
22 two cases and you wonder why it does not go farther.

23 PROFESSOR SMITH: At the present time I
24 can think of one development which is linked to pulp
25 and paper. Canadian Industries Limited are opening a
26 new caustic soda chlorine plant at Dalhousie. This,
27 of course, is linked to pulp and paper but there again
28 you are faced with an industry that is very capital
29 intensive. There have been some but it has not been
30 substantial. By and large the employment in secondary



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COMMISSIONER LEAHY: Do you regard it as a

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intensive. There are some who say it is not

profitable. It is a capital intensive industry.



1 industry in the Atlantic provinces today is about what
2 it was in 1946.

3 COMMISSIONER GIBSON: When you were talking
4 about secondary industry you gave a couple of examples
5 and it seems to me that both these examples are
6 particularly related to your resources industry. You
7 give land and in the other case, in the case of the
8 Chestnut Canoe Company because, I suppose, of a demand
9 for canoes and lots of good wood around?

10 PROFESSOR SMITH: I think we will get a few
11 developments based on this but the growth of employment
12 encouraging industry has not been substantial.

13 COMMISSIONER GIBSON: But you see a secondary
14 industry growth in the main, I take it, related to
15 certain natural advantages and natural products. This
16 is not a sort of general increase you are talking about
17 in secondary industry?

18 PROFESSOR SMITH: Most, I think, would have
19 linkages in the region, yes, but, of course, there are
20 also many industries which are footloose in the sense
21 of tending to move to the labour supply if the labour
22 supply is at all attractive. Electronics is an example.
23 We would expect, if we had the right sort of policy to
24 attract some of this footloose industry but naturally
25 a very large industry would naturally be linked to our
26 resources, our locations. Some economists consider
27 location as a resource.

28 COMMISSIONER LEMAN: How about the labour
29 supply? You say in areas of relatively high unemployment.
30 What has been done to arrange a good labour supply and

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COMMISSIONER LEAH: How about the labour

supply? You say in areas of relatively high unemployment what has been done to create a good labour supply and



1 build around that?

2 PROFESSOR SMITH: Well, labour rates here
3 on the average are very substantially below rates in
4 other parts of the country. I would not want you to
5 think that I feel that economic growth is simply a
6 matter of capital formation. I think you know in the
7 last five or six years there has been a definite change
8 in thinking in this regard. I think of Colin Clarke's
9 book on Growthmanship.

10 COMMISSIONER MACKINTOSH: Colin Clarke has
11 ridiculed a lot of things.

12 PROFESSOR SMITH: Education is tremendously
13 important and all our provincial governments are making
14 a real effort on the technical education side. I think
15 we must do more on this side. You mention capital
16 formation. It is a factor of economic growth which is
17 most closely related to this Commission. I would not
18 want you to think that I have any idea that capital
19 formation itself is the answer to growth.

20 MR. MANN: While the reference will be to a
21 resources industry yet the establishment of the new
22 Stora Kopparberg plant at Canso Strait has given such
23 an upsurge in employment in industry surrounding this
24 new plant as the Fraser did when it started etc., but
25 this is something that is brand new to the region and
26 really having its effect.

27 COMMISSIONER MACKINTOSH: What is the plant
28 again?

29 MR. MANN: It is the pulp and paper industry.

30 COMMISSIONER GIBSON: This is what you described



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COMMISSIONER MACKINTOSH: What is the plant

again?

MR. MANN: It is the pulp and paper industry.

COMMISSIONER GIBSON: This is what you described

1 as a cornerstone operation?

2 MR. MANN: Yes.

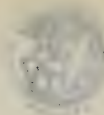
3 COMMISSIONER GIBSON: Do you see much else
4 coming in around that?

5 MR. MANN: Well, the establishment of the
6 harbour facilities as the result of its locating there
7 points up a number of things. Already another resources
8 industry is building and is going to ship from there
9 now. Along with this there have been certain industries
10 that have taken a look at it and I think as time goes
11 on this area will grow as a result of the start made
12 here. The same thing will be true, we feel, in the
13 Bathurst area but, as I was saying, this is in a resources
14 sector. We find that it is in the secondary manufacturing
15 end which we are trying to concentrate on and to point
16 up where employment can be most effective.

17 COMMISSIONER MACKINTOSH: Has there been any
18 experience in the region with industrial estates?

19 PROFESSOR SMITH: Yes, there has. Nova Scotia
20 has an industrial estates corporation. New Brunswick
21 was prepared to do roughly the same sort of thing, and
22 the other provinces have both at times done this,
23 and the experience with industrial estates in Nova Scotia
24 has been very encouraging indeed. Mr. Mann is more
25 closely related to the operations of it than I am, and
26 perhaps he would like to say something.

27 MR. MANN: Well, Mr. Chairman, the industrial
28 estates operation -- and you have a member on your
29 Commission, so that he knows more than I do -- has
30 been extremely successful, and in excess of 20 plants



COMMISSIONER GIBSON: Do you see much else

coming in about there?

MR. MANN: Well, the establishment of the

harbour facilities as the result of the logging there

points up a number of things. Alaska; another measure

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that have taken a look at it and I think as time goes

on this area will grow as a result of the steel works

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Baltimore area too, as I was saying, this is in a sense a

sector. We find that it is in the secondary manufacturing

and what we are trying to concentrate on and to build

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COMMISSIONER MACHINIST: Has there been any

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MR. MANN: Well, Mr. Chairman, the industrial

estates operation -- and you have a number of them

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1 have been built. Some are new and some are relocated,
2 all of which have created more labour and generally
3 speaking have been very successful, and have made an
4 important contribution to the economy of that province.
5 It is in these areas where large amounts of money
6 are needed and they come from the resources of the province,
7 and the resources of our province are limited.

8 COMMISSIONER MacKEEN: On cornerstone industries,
9 do we not suffer from the fact we haven't got certain
10 suppliers who would enable secondary industry to either
11 establish or expand? I have several of them in mind,
12 and I will mention one in particular, and that is the
13 fact there is no container industry -- tin cans or
14 glass bottles or glass jars -- in the Maritime provinces.
15 They all have to be imported long distances empty and
16 returned full, and it is very expensive. Wouldn't that
17 be the type of industry that you would look to -- such
18 a body as you have in mind -- which would enable an
19 expansion in that range, and if it were established
20 a lot of small industries could get going.

21 MR. MANN: This is very true. This is the
22 sort of industry we would like to encourage. There is
23 the problem of economy of scale, and this has been
24 one of the deterrents for the location of such an
25 industry to date. Our Council is doing the kind of
26 work that finds out what the market is and tries to
27 expand the total volume involved to interest industrialists
28 to locate here. However, this is the sort of thing.

29 COMMISSIONER MacKEEN: You have had a little
30 experience in that.



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1 MR. MANN: Yes.

2 COMMISSIONER LEMAN: Professor Smith, at
3 the risk of getting a little bit off the specific subjects
4 the Commission is supposed to look into, I would like
5 to ask you a question: Why is it that in the problem
6 you are now describing to us that you need the federal
7 -- would it be possible for the four provinces together,
8 if you think the characteristics of these four provinces
9 are regional in character, and therefore could form the
10 basis of a very fundamental understanding between them,
11 would their economic power if put together, consolidated
12 in some way, not bring this about?

13 PROFESSOR SMITH: I don't really think so.
14 I would think the tax base would be enough. I think
15 they are doing about all they can do at the present time.
16 If you look at the experience of other countries that
17 have been faced with our situation, it has been done
18 by the national government. You need the credit and
19 authority of the national government behind the policies
20 to make them work. I don't know of any lagging region
21 that has pulled itself up by its own bootstraps. It
22 is the national government that has come in and given
23 the sort of aid that is necessary.

24 COMMISSIONER MACKINTOSH: But in most of those
25 instances there is no provincial government.

26 PROFESSOR SMITH: Of course, in the United
27 States the area redevelopment act is an example of the
28 federal system -- of the action necessary from the
29 federal government.

30 COMMISSIONER MACKINTOSH: But not yet working ---



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COMMISSIONER MACKINTOSH: But not yet looking



1 PROFESSOR SMITH: Except it is an example of
2 the principle being accepted, that with this sort of
3 problem you do need the national government.

4 COMMISSIONER LEMAN: What I have in mind is
5 that I don't think the capital necessarily needs to all
6 come from this source. What I have in mind, rather,
7 is the creation of the right type of local or regional
8 commission, and you could create an atmosphere of
9 support etc., to attract private capital. I don't think
10 you would necessarily need to find the capital in this
11 region, or perhaps just a portion of it. You could
12 attract private capital from elsewhere by creating
13 a setup so favourable for it -- however, I am asking
14 you the question, not answering it.

15 PROFESSOR SMITH: I don't believe it could
16 be done this way, that the amounts involved would be
17 too large, and all I can say is that the experience
18 in other countries is against it, that it has always
19 been the national government which has stepped in to
20 do it. The latest example is the redevelopment act
21 in the United States where the United States government
22 has accepted the principle that it is a national
23 problem. If you read the message Kennedy sent to
24 Congress, he made this very specific. He did say while
25 the municipal governments and the States have a role
26 to play -- and we would agree they have -- since it is
27 a national problem, it requires assistance from the
28 national government.

29 MR. MANN: Mr. Chairman, this is a very difficult
30 question for us or anyone here to answer -- this particular



1 question. It is not difficult, but you have to be
2 very careful how you answer it, and that is, that
3 sufficient to say if it is going to be done it will
4 probably be done on the federal level.

5 COMMISSIONER BROWN: Saskatchewan has had
6 some experience in working this out on a provincial
7 basis.

8 MR. MANN: Yes, on a provincial basis. Mr.
9 Leman was talking about the four provinces -- not just
10 one province.

11 COMMISSIONER BROWN: Well, presumably, four
12 provinces would have more capacity than a single
13 province.

14 MR. MANN: I am not going to say any more.
15 I think you know what I mean.

16 COMMISSIONER LEMAN: There is such a thing
17 as the European Common Market.

18 MR. MANN: Which is a wonderful example.

19 COMMISSIONER MACKINTOSH: In another part
20 of your brief is the argument in favour of insulating
21 the Atlantic provinces from any kind of credit restraint
22 that may prove to be desirable for the economy as a
23 whole. There doesn't seem to be a great deal of
24 specific evidence that high interest rates or credit
25 rationing have actually been a very effective strength,
26 or that they have bitten into the Atlantic economy to
27 the extent that investment did not go forward or projects
28 were necessarily postponed. At least, that is what I
29 get from Cairncross.

30 PROFESSOR SMITH: But we acknowledge in our

question. It is not difficult, but you have to be
very careful how you answer it, and that is, that
sufficient to say it is going to be done it will
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that may prove to be desirable for the economy as a

whole. There doesn't seem to be any reason why
rationing have actually been a very effective device

were necessarily postponed. At least, that is what I

PROFESSOR SMITH: But we acknowledge in our



1 brief that we do not consider, it has been a major
2 factor in retarding growth. We simply say, why apply
3 a monetary policy to a region when it is inappropriate?
4 There are a number of institutional factors which make
5 it difficult: One of them is that periodically you
6 are faced with a monetary policy which is inappropriate
7 to the economic conditions in the region; to the
8 extent possible, try to temper the wind to the shorn
9 lamb. This is all we are saying.

10 COMMISSIONER MACKINTOSH: Of course, this runs
11 all the way through. I can say, why is the government
12 applying a policy to discourage excessive consumer
13 spending? Why are they applying this. I haven't been
14 conscious of any inflated income -- any excessive
15 spending. But, we all come under it. Isn't this
16 analogous to the region?

17 PROFESSOR SMITH: Well, of course, the whole
18 matter of the selectivity of monetary policy is an
19 awfully difficult question. We feel that there is some
20 precedent for this and it could be done quite easily.

21 COMMISSIONER MACKINTOSH: To what extent --
22 by what means could it be done?

23 PROFESSOR SMITH: Quite frankly mainly by
24 moral suasion, that the Bank of Canada would say to the
25 commercial banks, "We want you to restrain credit in the
26 country as a whole because of strong inflationary pressure,
27 but the situation in the Atlantic provinces is not such
28 that this needs to be done, and you don't have to apply
29 the same sort of regulations and restrictions there that
30 you are applying in the rest of the country." The British,



1 of course, have done this -- attempted to. Lord
2 Amory in his budget speech of 1959 announced he was
3 asking the commercial banks in areas where there were
4 high levels of unemployment not to apply rigid credit
5 restrictions. So, as regards the workings of monetary
6 policy itself, we think moral suasion would be one
7 way of doing it.

8 COMMISSIONER GIBSON: Following up on this
9 quotation you made from the United Kingdom experience
10 of not applying restrictive policies in areas where
11 there was a large amount of unemployment, what is the
12 appropriate unit to think of in Canada? Is it a
13 province? Is it a region? Is it an area? This seems
14 to me to get at the fundamental problem here. How do
15 you define an area of heavy unemployment? Do you take
16 a great chunk of the country, or do you just take
17 the places where you have a major problem?

18 PROFESSOR SMITH: This is bound to be
19 arbitrary. I would say I would think of it in terms
20 of regions, that it has become customary to divide
21 Canada into regions: The Atlantic region, Quebec, the
22 Prairies.

23 COMMISSIONER GIBSON: Would you say the
24 Prairies is a region when Alberta has been growing
25 much faster than the rest of the Prairies?

26 PROFESSOR SMITH: There may be times when you
27 say, "No; we are going to split it into two regions."
28 I am not sure it has reached that stage yet.

29 COMMISSIONER GIBSON: So you would think in
30 terms as big as that?



1 PROFESSOR SMITH: Yes, I would.

2 COMMISSIONER GIBSON: Because you are leaving
3 out an awful lot when you do that. Each one of these
4 regions is a very large chunk of the country.

5 PROFESSOR SMITH: The region I am most
6 knowledgeable about is our own region, and my experience
7 is that it would be quite safe.

8 COMMISSIONER MACKINTOSH: Isn't it possible
9 that Moncton ought to be restrained and the North
10 Shore encouraged?

11 PROFESSOR SMITH: Well, as I say, in all
12 these things there are the arbitrary factors and
13 operational factors.

14 COMMISSIONER BROWN: I think the real thing
15 is that monetary restraint should be applied to Ontario
16 and not to the rest of Canada; isn't that it?

17 PROFESSOR SMITH: There have been times when
18 there would be some validity in that.

19 COMMISSIONER BROWN: I think Mr. Gibson
20 has a point, and that is that even in the Atlantic
21 provinces there are some areas that are relatively
22 prosperous.

23 PROFESSOR SMITH: Yes.

24 COMMISSIONER BROWN: And it is going to be
25 difficult to say to people in Ontario, "We are restraining
26 you, but this prosperous area in the Atlantic provinces
27 is not restrained."

28 PROFESSOR SMITH: In the United States they
29 have broken up their federal reserve district into
30 twelve districts; they try to work on the basis of

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try to work on the basis of



1 twelve districts.

2 COMMISSIONER BROWN: Now they are moving in
3 the other direction.

4 PROFESSOR SMITH: I know the tendency is that
5 they have moved away from that type of monetary policy
6 there.. It is quite difficult to ascertain the extent
7 to which a region is still viable in regard to economic
8 policy.. I made an attempt several years ago to examine
9 this, and all I am saying is that in the United States
10 they split the country into twelve districts.

11 COMMISSIONER BROWN: But in the United States
12 they didn't have a branch banking system that went
13 across State boundaries, and this is one of the problems
14 in our banking system if you try to apply regional
15 monetary policies.. Also in the United States, I under-
16 stand they are swinging away now from the twelve
17 regions and coming back to a more centralized one.

18 PROFESSOR SMITH: My point is this could be
19 done in our present banking system on a regional basis
20 by moral suasion.

21 COMMISSIONER MACKINTOSH: I think we first
22 heard of moral suasion in Victoria some months ago,
23 and it has come up in various forms.. I think this ought
24 to be made explicit: You are essentially talking of
25 credit rationing?

26 PROFESSOR SMITH: Credit rationing.

27 COMMISSIONER MACKINTOSH: You are not talking
28 of differential rates?

29 PROFESSOR SMITH: No, we are not talking of
30 differential rates.



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and it has come up in various forms. I think this is one

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credit rationing?

PROFESSOR SMITH: Yes, that is correct.

COMMISSIONER MCKINNON: You are not talking

of differential rates?

PROFESSOR SMITH: No, we are not talking of

differential rates.



1 COMMISSIONER MACKINTOSH: It is only occasionally,
2 I would think, that restraining measures go to credit
3 rationing, specific and systematic, and it is only in
4 those circumstances, if at all, that you can exercise
5 selective or, if you want to call it that, discriminatory
6 action. I would not expect the incidence of this to
7 be very frequent nor the effect of it to be very
8 pronounced.

9 PROFESSOR SMITH: We are not saying it would
10 be. All we are saying is that at appropriate times,
11 when this seems reasonable, it should be done, but
12 the advantages of doing it outweigh any disadvantages
13 that we can see in the interests of the national
14 economy.

15 COMMISSIONER LEMAN: On the British example
16 you have cited, you have cited the instructions that
17 were given, and I can easily think of a politician
18 saying that -- "Apply the brakes but make sure you
19 don't hurt the people who are not moving fast" --
20 but how does this work in practice? Is it controllable?

21 PROFESSOR SMITH: The point I was making is
22 that the British accepted the principle.

23 COMMISSIONER LEMAN: Did it work in fact?

24 PROFESSOR SMITH: In fact, before it had a
25 chance to work, the British decided the situation had
26 changed and that they could relax the credit restrictions
27 in the country as a whole, but I am just arguing that what
28 we are advocating is not something unique. It has been
29 done elsewhere.

30 MR. MANN: Mr. Chairman, this is a question
about whether you apply new rules across the board in the



those circumstances, if at all, but you can exercise
selective or, if you want to call it that, discrimination
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1 region, or that there are places within the region,
2 such as Moncton, Saint John and Halifax that don't need
3 this help, and this has been discussed by the APEC
4 organization members who are business people from all
5 over, and they recognize this, and this has been quite
6 a subject of discussion at times, and while, of course,
7 a person from, let us say, the North Shore does not
8 feel that this should be, yet in principle people
9 accept that the region should be treated as a region
10 in this regard and that we would receive an over-all
11 benefit.

12 THE CHAIRMAN: Well, can you say anything
13 about this? You mentioned people on the North Shore
14 where their conditions might be less affluent than those
15 in the larger centres. To what extent does this monetary
16 restriction really affect these areas? Doesn't it
17 affect more drastically the central areas where a great
18 deal of business is done?

19 MR. MANN: That is very true.

20 THE CHAIRMAN: So that the interest rate
21 changes and restrictions on credit might not have so
22 much impact upon a farming community who are pretty
23 well settled and perhaps they are not borrowers?

24 PROFESSOR SMITH: But there is some evidence
25 surely that a restrictive credit policy affects the
26 small businesses more than the large. We have a
27 preponderance of small business here and it is the
28 low income areas where you would find the proportion
29 of the poor credit risks to be higher surely. The
30 poor credit risks would get the impact of a policy of

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of the poor credit risks to be higher surely. The



1 credit restriction, the incidence is heavier.

2 THE CHAIRMAN: Is there any evidence of the
3 extent to which credit policy affects the small businesses
4 in the areas such as have been described in the North
5 Shore area as an example?

6 PROFESSOR SMITH: It is very difficult to get
7 these statistics. I will say at periods of credit
8 restriction you do meet numerous businessmen and they
9 say: "Look, this does not make any sense at all. People
10 in my area are unemployed. I need a bank loan to cut
11 so much pulpwood and I cannot get it". All one can
12 say is that living here you meet people, a considerable
13 number of businessmen who have felt that they have
14 been adversely affected at times by credit restraint.
15 As regard the statistical evidence we are unable to
16 obtain it.

17 THE CHAIRMAN: From time to time we have heard
18 the same sort of thing in Ontario where small business
19 was affected at one stage but my recollection is that
20 it was not the general credit restriction monetary policy
21 so much as the type of situation which arose where the
22 banks just told the people they were going to cut their
23 credit in half or something of that kind. I think that
24 changed. I am not quite sure what happened at that
25 time. No doubt we will find out before we are through.

26 PROFESSOR SMITH: On a number of occasions
27 when there was a lot of unemployment in the building
28 industry here in Fredericton one of the banks stopped
29 home improvement loans on account of credit restrictions
30 as a whole. The banks said, "No more home improvement
loans", despite the fact that there was considerable

THE CHAIRMAN: Is there any evidence of the

existence of a credit policy which affects the small businesses

in the areas such as have been described in the North

Shore area as an example?

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PROFESSOR SMITH: On a number of occasions

when there was a lot of unemployment in the building

industry here in Fredrickton one of the banks stopped



1 unemployment in the building industry.

2 COMMISSIONER MACKINTOSH: You mentioned,
3 Professor Smith, and laid some stress on the activities
4 of the Industrial Development Bank. How far does it
5 perform successfully some of the tests that you would
6 hope would be performed by the government of Canada?

7 PROFESSOR SMITH: In recent years the
8 Industrial Development Bank has opened new offices
9 here and I would say where seven or eight years ago
10 we got a lot of complaints about the Industrial
11 Development Bank -- they were too cautious, it was very
12 difficult to get money from them, there has been a
13 definite change in recent years and the Industrial
14 Development Bank has increased its loans in the region
15 and its operations and is performing its particular
16 role, I think, with increasing satisfaction. Mr. Mann,
17 of course, comes from Halifax and has been more closely
18 connected with the Bank in recent years than I have.

19 MR. MANN: Well, the Industrial Development
20 Bank did not have an office here seven years ago.
21 Any loans were administered from the Montreal office.
22 Now, we have three offices in the Atlantic provinces
23 and the volume of business has gained by at least six
24 or eight fold.

25 Now, they have performed a special service
26 for the smaller industry, the demand. They have supplanted
27 to some extent the lending agencies which the government
28 were operating, not completely. They have contributed
29 a tremendous amount of useful knowledge and have
30 demanded more competent management in these firms and



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1 while a man going for a loan to the Industrial Development
2 Bank still feels that he is being asked in many instances
3 for an awful lot to put up for what he is going to
4 get he only has to have this for a short time and he
5 will realize that the demands made upon him are so
6 important that he is very happy that initially this
7 happened.

8 COMMISSIONER MACKINTOSH: You mean he is asked
9 for a great deal of information?

10 MR. MANN: Yes and he is asked to do his
11 job in a more efficient way and the staff of the Bank
12 make periodic calls on him and go through his plant,
13 check his inventory and do all sorts of things which
14 have been of inestimable help to the man who borrows
15 from the Industrial Development Bank. But this has
16 been done more on the smaller level. There have been
17 some sizeable loans but more particularly the loans
18 have been modest and as such they have been of great
19 help.

20 THE CHAIRMAN: From your knowledge of the
21 activity of that Bank would you say that the principles
22 that they apply and this system that they follow in
23 screening these loans and the conditions they attach
24 and all the rest of it, that if that system were applied
25 to larger loans or larger industry, the kind that you
26 contemplate, that that would be a satisfactory medium?

27 MR. MANN: Well, that is the sort of extension,
28 I think, that we are hoping for.

29 THE CHAIRMAN: If the sort of service that
30 the Industrial Development Bank were rendering were



for a great deal of time.

MR. WAIN: Yes and he is called to go to

his in a more efficient way and the kind of the way

make possible coming on him and he is doing his best

check his financial statement and he is doing his best

have been of considerable help to the car and the way

from some point of the railway system. It is a very

have been asked and he has been doing the best of his

best.

THE CHAIRMAN: Now, your knowledge of the

activity of that work would not say that the chairman

that they apply and take of it that they follow it

concerning these things and the work that they do

and all the rest of it, the work of the chairman and

to be a good one. I think that is the best that you

MR. WAIN: Yes, that is the best that you

I think that is the best that you

and the chairman and the work that they do

and the chairman and the work that they do



1 extended to the larger industries, these cornerstone
2 industries, for instance, would that be an adequate
3 medium for accomplishing the purposes that you have
4 in mind?

5 MR. MANN: Well, I would like Professor Smith
6 to say something in this regard.

7 PROFESSOR SMITH: I think it would be a
8 help but I do not think in itself it would be adequate
9 to the development of the number of cornerstone industries
10 that we need.

11 THE CHAIRMAN: Why not?

12 PROFESSOR SMITH: I think there may be times
13 when you have to do a host of other things. For
14 instance, the state might have to build a plant and
15 rent it at a low rental to the firm. It might have
16 to train the workers and there may be other times when
17 perhaps you would need an outright grant.

18 THE CHAIRMAN: Well, if the time came to face
19 that problem then perhaps we could condition ourselves
20 to it but at the present time we have an organization
21 that has had considerable experience over the past
22 few years in advancing money to industries that otherwise
23 could not raise money and it has had significant success
24 because it has been careful and has so far proved
25 successful on perhaps a smaller scale than you contemplate.
26 If that scale were increased to take care of some of
27 the larger industries that you contemplate would not
28 that be a fairly safe and sensible step?

29 PROFESSOR SMITH: It would be. It would be
30 certainly a big step forward but our opinion is that



PROPOSAL AMOUNT: I request a grant of \$10,000.00
to be used for the purpose of...

When you have to do a lot of work for
the State, the State might want to give a grant, and
rent in a house for the State. It might be
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1 it should be supplemented by other measures, that is
2 all.

3 COMMISSIONER LEMAN: Well, we are getting
4 a little confused here. At one point you were talking
5 about fairly large scale industries and then you were
6 talking about small businesses or relatively small
7 businesses. The Industrial Development Bank was not
8 set up to start a big steel complex, that is not its
9 role. That is not the way the large industries should
10 be started. But how about the private concerns? Is
11 there any evidence that they have helped in this region
12 such as private finance companies? We have a few acting
13 in central Canada like the Charterhouse group, and the
14 Trust companies have supplied small business capital.

15 PROFESSOR SMITH: Yes they have. Small
16 capital has been raised for businesses but there are
17 these large cornerstone industries that need large
18 amounts of capital and for another thing, we think
19 this would not be enough, you would have to do other
20 sorts of things occasionally -- capital grants and
21 training workers and expenditures on the social overhead
22 capital that they need. I would think this would be
23 a big step forward.

24 THE CHAIRMAN: There are other things besides
25 those steps you have mentioned. There is management
26 and these large industries that you contemplate are
27 still in the idea stage. I have not heard yet whether
28 there are any responsible entrepreneurs who have shown
29 sufficient interest in any of these particular projects
30 that are in mind who have attempted to figure out whether



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THE CHAIRMAN: There are other things besides those steps you have mentioned. There is management and these large industries that you contemplate are still in the idea stage. I have not heard yet whether there are any responsible entrepreneurs who have shown sufficient interest in any of these particular projects that are in mind who have attempted to figure out whether



1 it might be a profitable enterprise for them or not.

2 Has there been much exploration done as to the possibilities
3 of these industries that you contemplate?

4 PROFESSOR SMITH: There has been very consider-
5 able, very considerable.

6 THE CHAIRMAN: Have they been turned down
7 and for what reason?

8 PROFESSOR SMITH: I would not want to go into
9 specific circumstances. All I can say is that I can
10 give you a number of instances that have come to my atten-
11 tion where what one would call a cornerstone industry
12 has been held up by inability to get adequate capital.

13 MR. MANN: I think, Mr. Chairman, your question
14 was very well pointed. It does not matter who does
15 it as long as it is done as far as I am concerned. I
16 did not envisage that the Industrial Development Bank
17 were going to fulfill this need.

18 THE CHAIRMAN: Neither do we at the moment.
19 I am just exploring, that is all. There must be some
20 competent organization ...

21 MR. MANN: That is right.

22 THE CHAIRMAN: ... if your suggestion is
23 adopted?

24 MR. MANN: That is right.

25 THE CHAIRMAN: And it must be an organization
26 preferably consisting of men who have had some experience
27 in this kind of thing?

28 MR. MANN: Oh, absolutely.

29 THE CHAIRMAN: And where do you find them?

30 MR. MANN: Right.

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THE CHAIRMAN: And where do you find them?



1 COMMISSIONER GIBSON: Your specific recommen-
2 dation is that a fund be established by the government
3 of Canada from which grants would be available to assist
4 in the development of cornerstone plants etc., and so
5 forth? Can you elaborate on this recommendation? First
6 of all, what sort of a fund, who administers it?

7 PROFESSOR SMITH: We would think this fund
8 should be set up by the government of Canada with
9 a competent group of businessmen and economists on it.

10 COMMISSIONER GIBSON: Would they be mainly
11 businessmen and economists in the Atlantic provinces?

12 PROFESSOR SMITH: The Atlantic provinces
13 should be represented but I would not say they should be
14 completely from the Atlantic provinces, no.

15 COMMISSIONER GIBSON: Would there be political
16 representatives, Members of Parliament etc., on such
17 an organization?

18 PROFESSOR SMITH: No, there would not. I
19 would think it would want to be kept a non-political
20 body.

21 COMMISSIONER GIBSON: Then the fund would have
22 to receive very sizeable proportions of monies from the
23 government of Canada, I take it?

24 PROFESSOR SMITH: It would, yes. It would be
25 very difficult to start with an estimate of how much
26 they would need initially but it would seem to me that
27 such funds would be made available to them as would be
28 clearly needed to fulfill the task they had.

29 COMMISSIONER GIBSON: You are thinking of
30 this fund as being something to facilitate industrial



1 development in the Atlantic provinces or anywhere in
2 Canada?

3 PROFESSOR SMITH: No, we think purely in
4 terms of the Atlantic provinces themselves. We consider
5 we have the most serious growth problem in the nation.
6 It might be that there are other areas of Canada where
7 the national government and the provincial governments
8 would consider a programme of cornerstone industries
9 in the national interest. We are concerned with the
10 Atlantic region and the two things we are concerned
11 with are getting cornerstone industries and making the
12 fund available to the provinces for the expansion of
13 the industrial programme when it is necessary.

14 COMMISSIONER GIBSON: Then, you would have a
15 group of people administering this fund and they would
16 be businessmen, economists and not political people,
17 you suggest?

18 PROFESSOR SMITH: Not political people, yes.

19 COMMISSIONER GIBSON: They would make recommend-
20 ations or would they actually disperse funds and would
21 they be advisory or the executive type of organization?

22 PROFESSOR SMITH: They would be essentially
23 advisory. I would see them operating in this way: There
24 would be a possibility of cornerstone industry in New
25 Brunswick. It would come to the attention of the
26 development authorities here. The amount of funds
27 required and the assistance required would be clearly
28 given to the representatives of the provincial govern-
29 ment. The provincial government would decide what basket
30 of incentive was needed to get this project underway and

PROFESSOR SMITH: No, we think primarily in

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ment. The private government would decide what would

of income



1 the proposal would be made to this agency. They would
2 study it, they would decide what aid was necessary
3 and they would recommend this to the federal government.

4 COMMISSIONER GIBSON: So each project would
5 be judged on its merits and the funds requested for
6 that specific thing?

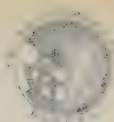
7 PROFESSOR SMITH: For that specific purpose,
8 yes.

9 COMMISSIONER BROWN: What would be the attitude
10 towards such a cornerstone industry which was in direct
11 competition with an established industry which had not
12 received these benefits?

13 PROFESSOR SMITH: Well, these are things
14 that you would have to work out as the situation arose
15 but if there were cornerstone industries catering mainly
16 to world markets I would not see any problem. If one
17 industry was just getting nicely by in the region catering
18 to a regional market, getting another industry would
19 not seem reasonable and this would be a factor that
20 would be considered but most of them, as I say, would
21 be export industries geared to world markets and I would
22 not see any difficulty.

23 COMMISSIONER BROWN: Say you had a pulp and
24 paper organization geared to world markets operating
25 here now and just getting by on a profitable basis,
26 would you then be in the position of recommending assistance
27 to another such industry which would get all this public
28 assistance when you had one already that had not had
29 assistance?

30 PROFESSOR SMITH: Well, I think always it has



the proposal would be made to this agency. They would study it, they would decide what aid was necessary and they would recommend this to the Federal Government. COMMISSIONER GIBSON: So each project would be judged on its merits and the funds requested for that specific thing? PROFESSOR SMITH: For that specific purpose.

COMMISSIONER BROWN: What would be the attitude towards such a concrete industry which was in direct competition with an established industry which had not received these benefits?

PROFESSOR SMITH: Well, these are things that you would have to work out as the situation arose but if there were concrete industries catering mainly to world markets I would not see any problem. If one industry was just getting nicely by in the region catering to a regional market, getting another industry would not seem reasonable and this would be a factor that would be considered but most of them, as I say, would be export industries geared to world markets and I would not see any difficulty.

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1 been found that this policy has been necessary for
2 development. The British do it and it has been done
3 elsewhere.

4 MR. MANN: I think I can answer this question
5 because it really is not difficult. What happens is
6 that the industry wants to establish from its contacts --
7 it makes contact with the government -- and the government
8 of the province that it wishes to move into makes the
9 decision as to whether or not it should be located and
10 this decision is very easily taken from the presentation
11 of the industry where their markets are, whether they are
12 going to supplant a present organization. It is just
13 like when Shora Kopperberg came into Nova Scotia, there
14 was no problem that they were going to be able to
15 sell their products. They assured us that they were
16 and it was competent management who made this decision.
17 I suggest this is not a big problem. It is thought to
18 be a problem, especially on the lower level where you
19 might find people making mattresses and when you start a
20 mattress plant around centres where there are already
21 mattress plants. You can easily resolve this.

22 COMMISSIONER LEMAN: Just the fact that its
23 markets would be export markets does not necessarily
24 solve Mr. Brown's problem. Let us imagine, for instance,
25 that you found a nice nickel deposit in New Brunswick
26 and then set up a major nickel smelter with federal
27 assistance, you would run right up against that problem,
28 wouldn't you, even though its markets are principally
29 export?

30 PROFESSOR SMITH: Well, this would be a factor,

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1 the fact that your new plant was competing with the
2 existing nickel industry. This is a factor which would
3 condition the decision of the agency as to whether
4 they are going to help it or not and if they thought
5 there was a market for it and if the world market
6 was expanding rapidly enough to take this production
7 why shouldn't they? I think in some industries a little
8 competition would not do any harm, especially in the
9 nickel industry. I think a little more capacity of
10 nickel in this part of the world would be a jolly
11 good thing.

12 COMMISSIONER BROWN: That might be so but
13 I think there is considerable difficulty in suggesting
14 federal subsidy to particular plants.

15 THE CHAIRMAN: As I understand it you are
16 not suggesting so much a subsidy as the advancement
17 of the essential capital to get the industry started
18 and you contemplate that eventually the industry will
19 become self-supporting?

20 COMMISSIONER BROWN: But you are talking about
21 actual grants.

22 PROFESSOR SMITH: There are times when grants
23 would be necessary and if the grants would be necessary
24 to get something viable and in relation to the social
25 costs involved, if you did not give the grant we would
26 say that the grant would be justified. Grants do play
27 a role in practically all the development policies of
28 all the other countries.

29 MR. MANN: Mr. Chairman, the development of
30 the Atlantic provinces since I have been with APEC and

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MR. MANN: Mr. Chairman, the development of

the Atlantic provinces since I have been with AEC and



1 have returned here has always been a problem where
2 everybody says: "Just what can you do?". It is
3 this sort of question that we were faced with in the
4 final analysis to say that you must have this massive
5 injection of capital and you must have this board
6 to decide on public and private works as an inhibitor
7 to get things started.

8 PROFESSOR SMITH: What we are saying in
9 essence is there is nothing unique in our situation
10 in the Atlantic provinces in the economy of Canada.
11 Practically every country has a situation like ours.
12 Comprehensive policies have been a problem in other
13 countries. I do not think they have been adequate in
14 our country. This is what we are saying. We know
15 there are complexities but this is fairly common.

16 THE CHAIRMAN: It is really, I suppose,
17 nothing new in this country for governments of one
18 form or another to give special concessions for the
19 development of new industry either by tax concessions
20 or something else. In Northern Ontario the mining
21 tax is based upon net profit. The mine may have been
22 carrying on for years and if it doesn't make a net
23 profit it doesn't pay any tax, which is an indirect way
24 of subsidizing it. The higher the profit the higher
25 the percentage of mining tax, and that is not an
26 unusual thing. There are many other ways too: Municipalities
27 have been giving tax concessions to attract new industry.
28 I think we heard yesterday that they do that here, which
29 perhaps is not very satisfactory, but that is not
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1 PROFESSOR SMITH: I might say you touched
2 on tax incentives. We didn't go into this in detail,
3 but tax incentives do play a big role in other countries.

4 THE CHAIRMAN: Yes, but it is one way of
5 accomplishing the thing -- perhaps not in as big a
6 way as you have in mind.

7 COMMISSIONER GIBSON: I don't think anybody
8 would question that from time to time the federal
9 government does take direct action to facilitate the
10 development of industry or transportation or other things.
11 This is a difficult question to reach a decision on
12 and varies with the times and circumstances and every-
13 thing else.

14 I would like to ask a little more about your
15 definite recommendations. You have got these two
16 organizations -- these funds from which money will be
17 available to assist cornerstone industries, and you
18 have got this capital projects commission which is
19 presumably to co-ordinate and recommend and provide
20 funds or steer funds into public works which will
21 facilitate the development of industry, presumably.

22 PROFESSOR SMITH: Into social overhead
23 capital.

24 COMMISSIONER GIBSON: What are you thinking
25 of -- roads and power ?

26 PROFESSOR SMITH: Roads, power -- I suppose
27 roads and power are the very heart of social overhead
28 capital which is relevant to industry.

29 COMMISSIONER GIBSON: It is tied right into
30 cornerstone industries at times. You may need roads to



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1 develop them, and power. What is this capital projects
2 commission? How do you set that up?

3 PROFESSOR SMITH: It would consist of a group
4 of people who are knowledgeable about the relationship
5 between social overhead capital and industrial growth.

6 COMMISSIONER GIBSON: Would this be an
7 Atlantic provinces operation?

8 PROFESSOR SMITH: No, this would be federal --
9 both of these would be federal bodies with Atlantic
10 representation. We are not suggesting all the
11 representation would come from the Atlantic provinces.
12 A province would have a social overhead capital project
13 that was beyond its means and concerning which it thought
14 the federal government should come in in the national
15 interest, and it would make a proposal to it, and
16 this capital projects commission would then advise
17 that it be done or reject it on the grounds it was not
18 necessary. For instance, if the Capital Projects
19 Commission had been in existence at the time when we
20 were considering here in New Brunswick the Beechwood
21 project, this is the sort of thing that instead of
22 going to Ottawa with our presentation and giving it
23 to the Minister of Finance, there would be a specific
24 body set up which you would appear before and all the
25 evidence would be made available at a public hearing.

26 COMMISSIONER GIBSON: In other words, these
27 would only be for very large projects regarded as being
28 sufficiently important to stimulate the whole area.

29 PROFESSOR SMITH: To stimulate the economy.

30 COMMISSIONER GIBSON: And somewhat beyond



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2 PROFESSOR SMITH: Yes. Beechwood would be
3 the sort of project.

4 COMMISSIONER BROWN: This would have avoided
5 the pipeline debate; it is the same sort of thing?

6 PROFESSOR SMITH: Yes, that is right. We are
7 saying these things are useful for the region. Whether
8 they are useful for the country as a whole or not --
9 probably they would be -- but that is rather outside
10 our terms of reference in the Council. We have got
11 enough problems east of Montreal.

12 COMMISSIONER GIBSON: And this capital projects
13 commission, you say these would be engineering people.

14 They would have to have representatives of government
15 on them -- the four Atlantic governments; the Department
16 of Public Works, and if the government has to decide ---

17 PROFESSOR SMITH: Yes, you could have -- it
18 would be extremely difficult for a provincial civil
19 servant to sit on a body like this. Our thinking is
20 that ~~the people on the~~ Capital Projects Commission would
21 tend to have an engineering background. These are essentially
22 engineering problems. People on the development fund
23 would tend to have rather a different background --
24 businessmen and economists. This is why we differentiate
25 between the two. It would be possible, I assume, to
26 consolidate them both with a mixed board, but we were
27 thinking in terms of the Capital Projects Commission
28 being engineers; this is the sort of thing perhaps
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Government of the Province of
New Brunswick

VOLUME 18A

INDEX

Page No.

Atlantic Provinces Economic Council
Government of the Province of
New Brunswick

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
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VOLUME 18A

INDEX

Page No's

Government of the Province of New Brunswick	A1707-A1779
Atlantic Provinces Economic Council	A1780-A1817



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Fredericton, New Brunswick,
May 15, 1962.

Honourable Dana Porter, L.L.D.,
Chairman, Royal Commission on Banking and Finance,
P.O. Box 1502, Station "B",
Ottawa, Canada.

Dear Sir:

I am pleased to submit herewith a brief
outlining the views of the Government of New Brunswick
with respect to its experience as a borrower in Canadian
capital markets, and to the impact of the operations of
such markets on the New Brunswick economy.

We have given a broad interpretation to the
terms of reference of your Commission, and have
emphasized the economic and financial requirements of
the New Brunswick Government and the provincial economy
within a national policy framework including both
monetary and fiscal action. We have not, however,
confined ourselves entirely to local problems.

The New Brunswick Government considers the
problems confronting your Commission to be extremely
important, and wishes you and your colleagues well in
your attempt to find solutions.

Yours sincerely,

L.G. DesBrisay,
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17
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19
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25
26
27
28
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TABLE OF CONTENTS

Page

I INTRODUCTION	1
II FINANCING PROVINCIAL GOVERNMENT	
REQUIREMENTS	4
Government Spending	4
Government Taxation	5
Government Borrowing	7
Effects of Monetary Policy on	
Government Financing	18
III ECONOMIC IMPLICATIONS OF FINANCING	
POLICIES	25
The New Brunswick Economy	26
Policies Affecting the Financial	
System	30
Longer Term Policies	42
Financial Institutions	45
Regulations Governing the	
Issue and Sale of Securities	48
APPENDIX A - Statistical Appendix	51



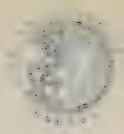
2	
3	
4	THE FINANCING PROVISIONAL GOVERNMENT
5	REQUIREMENTS
6	
7	Government Taxation
8	
9	Effects of Monetary Policy on
10	Government Financing
11	
12	POLICIES
13	The New Brunswick Economy
14	Policies Affecting the Financial
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17	Financial Institutions
18	Provisions Governing the
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21	
22	
23	
24	
25	
26	
27	
28	
29	
30	



I INTRODUCTION

1. It is not only a pleasure and an honour to appear, on behalf of the Province of New Brunswick, before this Royal Commission; it is as well a very great responsibility since this Commission's task is among the most important of any such body in the post-war period. It is our view that such an enquiry into the operations of this country's financial structure is long overdue, and could not come at a more appropriate time in the history of this country. Since the MacMillan enquiry in the early 1930's, this country has experienced a major depression, a prolonged period of intensive warfare, and several post-war recessions interspersed with periods of relatively rapid economic expansion. In recent years this expansion, in real terms, has been not only modest but nearly negligible, and with the impending challenge of an increasingly competitive international trading environment, it is imperative that intensive consideration be given to the role which Canada's financial structure and policies shall play in helping the nation to meet this challenge. During this same period there have also been striking social changes both in ideas and attitudes which have significant implications for our financial system.

2. There are obvious precedents for such an examination. The Select Committee on the working of the Monetary System in Great Britain, and the Commission on Money and Credit in the United States have each made useful contributions in the financial



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A1710

1 field. They have as well served to focus widespread
2 attention on the conduct of financial and monetary
3 affairs on both the national and international level.
4 These enquiries have also served to stimulate interest
5 and critical analysis of the operations of our own
6 banking system, but rather than providing us with
7 answers have served to emphasize the necessity for an
8 enquiry of our own.

9 3. In this respect, it is our expressed hope
10 that the Royal Commission on Banking and Finance will
11 interpret its terms of reference in the broadest possible
12 sense. The organizational and structural examination
13 of the MacMillan Commission may well have been adequate
14 for its time, but at this stage the major requirement
15 is for a searching examination of the monetary and
16 economic effects of the financial structure, with
17 emphasis on the types of policies required to serve the
18 needs of the country. In our view, it would be both
19 unrealistic and unrewarding to adopt the view of the
20 Radcliffe Committee that an evaluation of other methods
21 of influencing aggregate demand are beyond the scope
22 of your enquiry.

23 4. In attempting to determine the responsibility
24 of the Province with respect to its submission to the
25 Royal Commission on Banking and Finance, we have come
26 to two major conclusions. First, as a borrower the
27 Province has a very real concern in the financial
28 structure of the nation and in the policies and practices
29 which affect it. Accordingly, we have outlined our
30 policies and experiences in this field, along with



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4. In attempting to determine the responsibility of the Province with respect to its submission to the Royal Commission on Banking and Finance, we have come to two major conclusions. First, as a borrower the Province has a very real concern in the financial structure of the nation and in the policies and practices which affect it. Accordingly, we have outlined our policies and experiences in this field, along with



1 problems encountered and some suggestions which we
2 believe necessary for improvement.

3 5. Secondly, because the Province and its
4 people are exposed to, and affected by, the economic
5 repercussions of the operations of the financial
6 system, we feel it our duty to be concerned with the
7 impact of financial and banking practises on the New
8 Brunswick economy. Clearly, this latter concern
9 involves the determination of the regional impact
10 of financial operations which are essentially national
11 in both character and application. In doing so, we
12 have been hampered by the lack of information,
13 particularly with respect to regional flows of funds,
14 and by the lack of facilities to conduct major pieces
15 of economic research.

16 6. Nevertheless we, along with the other three
17 Atlantic Provinces, have had the benefit of a study
18 by Professor A.K. Cairncross of Glasgow University,
19 and are submitting this in the form of an unattached
20 appendix to our brief. In addition, we feel we are
21 in a position to make reasonable judgments pertaining
22 to some aspects of monetary policy, and to suggest
23 areas where we believe that intensive study by the
24 Royal Commission would be worthwhile.

25 7. In both the above-mentioned categories, we
26 have stressed the need for a financial system to fully
27 reflect the social and economic requirements of the
28 province and the country. It follows therefore, that
29 our interpretation of the Commission's terms of reference
30 has been a broad one, and we hope the Commission will



believe necessary for improvement.

Secondly, because the Province and its

people are exposed to, and affected by, the economic

repercussions of the operations of the financial

system, we feel it our duty to be concerned with the

impact of financial and banking practices on the New

Brunswick economy. Clearly, this latter concern

involves the determination of the regional impact

of financial operations which are essentially national

in both character and application. In doing so, we

have been hampered by the lack of information,

particularly with respect to regional flows of funds,

and by the lack of facilities to conduct major pieces

of economic research.

Nevertheless we, along with the other three

Atlantic Provinces, have had the benefit of a study

by Professor A.K. Cairncross of Glasgow University,

and are submitting this in the form of an unattached

appendix to our brief. In addition, we feel we are

in a position to make reasonable judgments pertaining

to some aspects of monetary policy, and to suggest

areas where we believe that intensive study by the

Royal Commission would be worthwhile.

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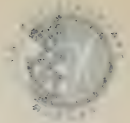
1 agree with this. Particularly, we emphasize the
2 relationship between monetary and fiscal policies,
3 as both alternatives and substitutes for one another.
4 This approach inevitably involves us in questions of
5 political philosophy and judgment which cannot be
6 based on statistical analysis, but are nonetheless
7 relevant to any examination of the adequacy of the
8 financial structure and policies.

9 8. The New Brunswick submission then is divided
10 broadly into two parts; the first considers the
11 Government and some other bodies as borrowers in the
12 capital markets; while the second deals with the
13 economic impact of the operations of such markets.
14 In both these sections suggestions are made for
15 certain structural alterations which appear to be both
16 logical and feasible.

17
18 II FINANCING PROVINCIAL GOVERNMENT
19 REQUIREMENTS

20 9. As the Commission has expressed interest
21 in the experience of the Government of New Brunswick
22 as a borrower in the capital market, the practises
23 and policies of the Government will be outlined.
24 In addition, judgments based on this experience will be
25 put forth in the form of recommendations which, we
26 believe would greatly assist the Province in meeting
27 its financial requirements.

28 10. However, the financing requirements of any
29 so-called "junior" government must be considered on
30 a broader basis than merely its annual requirement



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II FINANCING PROVINCIAL GOVERNMENT

9. As the Commission has expressed interest in the experience of the Government of New Brunswick as a borrower in the capital market, the circumstances and policies of the Government will be outlined. In addition, judgments based on this experience will be put forth in the form of recommendations which we believe would greatly assist the Province in meeting its financial requirements.

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1 from the bond market. For, in fact, government
2 borrowing is directly related to both government
3 spending and government taxation, with borrowing
4 requirements being determined by spending and taxing
5 policies. As a result, each of these spheres is
6 important in any consideration of government financing,
7 both in the present, and particularly in the future.

8
9 Government Spending

10 11. Like all the junior levels of government,
11 overall financial needs have increased dramatically
12 in the post-war period. This has resulted largely from
13 the combination of three factors, each tending towards
14 higher levels of government spending. First, those
15 responsibilities allocated to junior levels of govern-
16 ment have been more susceptible to the large increases
17 in population and price levels which have occurred.
18 This has resulted in continuously rising expenditure
19 levels, even without the expansion of services into
20 new areas. Secondly, the involvement of the Federal
21 Government at the national level in areas previously
22 considered the responsibility of the provinces, has
23 added considerable impetus to the development of new
24 and/or expanded programmes geared to national needs.
25 This has resulted, primarily in the health and welfare
26 fields, in a proliferation of national programmes on
27 a shared-cost basis, which now bulk large in all
28 provincial budgets. The third factor is not unrelated
29 to the first two, and involves essentially a rising
30 demand on the part of Canadians for both more extensive



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1 Government services and services of higher quality.
2 Although this factor is strongly felt in the fields
3 of health, welfare and education, it has been especially
4 reflected in New Brunswick by a greater acceptance
5 by all administrations of the need for increased efforts
6 in the field of economic and industrial development.
7 12. It would be reasonable to expect that these
8 same factors have been operative in most provinces, but
9 the degree to which any government responds to such
10 stimuli is a measure of not only its political philosophy,
11 but the resources available to it. In this regard,
12 New Brunswick has not attempted to provide levels
13 of services higher than the prevailing "national"
14 levels, and has in many cases a very difficult task
15 in meeting these. Neither has the province attempted
16 to lead the way in the development of the welfare
17 state. The basic, if somewhat general, objective in
18 this province is to provide to New Brunswick both
19 the quality and quantity of services which, as Canadians,
20 they have a right to expect.

21 13. It is, therefore, the question of available
22 resources which must be answered in determining the
23 degree to which the growing requirements of government
24 can be met. In this context, there are only two
25 alternatives once the demand is assumed to be
26 effective:- to tax or borrow.

27
28 Government Taxation

29 14. As spending requirements rose in the post-war
30 period, both the Province and its municipalities increased



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14. As spending requirements rose in the post-war
period, both the Province and the municipalities there



1 levels of taxation accordingly, but not proportionately.
2 As the following section indicates, both levels of
3 Government were forced to rely to a greater extent
4 on borrowing to meet rising annual cash requirements.
5 It is felt that neither government had much discretion
6 in this situation, since taxation levels relative to
7 income can be raised only so far. Nonetheless,
8 significant attempts were made to acquire more tax
9 revenue; the Province became one of the first
10 provinces to impose a sales tax, other taxes were among
11 the highest in Canada, and the municipalities, along
12 with higher property taxes adopted a proliferation of
13 poll, occupancy and motor vehicle taxes rarely used else-
14 where in the country.

15 15. As a result, the combined incidence of
16 municipal and provincial taxation is among the highest
17 in Canada. An index developed to measure this burden
18 for the period 1956-58 (See Appendix A) indicates only
19 one province in Canada had a greater portion of its
20 personal income absorbed by municipal and provincial
21 taxation. If qualitative considerations could be
22 reflected in such a formula, this tax differential
23 would undoubtedly be considerably greater. For example,
24 the one province (Saskatchewan) with an index of tax
25 burden higher than New Brunswick for the period in
26 question, received some tax revenues to finance services
27 substantially in excess of those offered in this
28 province.

29 16. The strategic variables in the field of
30 taxation are essentially two in number:- the effective



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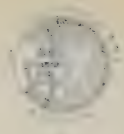
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1 rates of tax and the level of income to which such
2 rates are applied. In New Brunswick, tax rates are
3 among the highest and personal income per capita is the
4 third lowest in Canada. This combination points up
5 the fact that the taxing potential of New Brunswick
6 governments is extremely limited -- limited because
7 of the extremely low yields of most taxes. For example,
8 the yield per capita from the personal and corporate
9 income taxes and succession duties in New Brunswick
10 is the third lowest in Canada and equal to approxi-
11 mately half the national average. Furthermore, the
12 application of high tax rates to such a narrow tax base
13 inevitably brings a government face to face with the
14 law of diminishing returns -- a situation now confronting
15 the Government of New Brunswick in some tax areas.

16
17 Government Borrowing

18 17. Given a situation whereby financial require-
19 ments are rising along with a diminishing tax potential,
20 the inevitable result has been an increase in Government
21 borrowing at all levels. At the Provincial level, the
22 annual new borrowing requirement rose from an average
23 of $6\frac{1}{2}$ per cent of total ordinary and capital expenditures
24 in 1952 and 53 to an average of 10.7 per cent in 1959
25 and 1960. Although precise statistics are not
26 available for municipalities, it is estimated that the
27 same trend, but more pronounced, is operating at that
28 level. Furthermore, it appears that this trend towards
29 heavier borrowing is not likely to be reversed. Rather,
30 it is quite probable that government capital require-



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1 ments will increase even more rapidly in years to
2 come.

3 18. On the whole, however, the New Brunswick
4 experience in capital markets during the past decade
5 has been quite satisfactory. As Appendix A indicates,
6 the Government obtained over 195 million dollars in
7 this period, with slightly over 40 per cent of this
8 amount being borrowed for the N.B.E.P.C.¹ For the
9 greater part of this period, it has been Government
10 policy to deal with a syndicate representing a substantial
11 number of national investment houses, but in recent
12 years the competitive tender call has been used
13 successfully. The Province has, as well, dealt
14 privately with two and sometimes three syndicates
15 on a highly competitive basis.

16 19. While the Province has used all three types
17 of borrowing arrangements, it is difficult to be
18 dogmatic in terms of any particular one. Theoretically,
19 as a government we would prefer to call for public
20 tender on all issues, and let our prices be the result
21 of the interplay of competitive forces. However, we
22 have found that the market is an imperfect market, and
23 that under certain conditions competitive bids do not
24 really bring the lowest ultimate prices, depending

25
26 ¹ These amounts exclude an eight-year Treasury Bill
27 for 29.5 million dollars held by the Government of
28 Canada, and a two-year loan of 20,000,000 Swiss Francs,
29 both of which have been or are being refunded.
30



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1 upon the nature of the bidder, his power in the market
2 and the nature of the market itself.

3 20. Consequently, in certain types of market
4 there are advantages to the fiscal agent or syndicate
5 arrangement, particularly when the annual requirement
6 from the market is large, and there is some possibility
7 that a quantity of bonds might "hang" on the market.

8 In other cases, an issue can be more or less tailored
9 to suit the requirements of a particular customer or
10 customers, and a private placement would therefore
11 be most appropriate.

12 21. Generally, the Province's annual borrowing
13 requirement consists of refunding plus that portion
14 of its capital spending programme which it cannot, or
15 does not, wish to finance from current revenues. In
16 this latter respect the normal practice is not to borrow
17 unless the expenditure has the effect of increasing
18 the productivity of the economy in the long run, or
19 is of a self-liquidating nature. Prior to December
20 31, 1960 the Province conducted all long-term borrowing
21 for the New Brunswick Electric Power Commission, and
22 the annual requirement for this purpose was based on
23 refunding schedules and on the requirements consistent
24 with the Commission's development of capital facilities
25 and were timed accordingly.

26 22. Upon determining its annual capital requirement,
27 advice from syndicate managers, the chartered banks and
28 investment dealers has normally been sought as regards
29 the timing of the issue or issues, the market to be
30 entered and other relevant considerations. The Government



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1 as well forms its own judgments in these matters, and
2 the principal criteria involved have been the magnitude
3 of the annual requirement, the requirements and timing
4 of other provincial issues, and the expectations
5 regarding short-term movements in interest rates.

6 No attempt has been made to speculate on the movement
7 of interest rates for periods of more than a few
8 months, and in many cases the importance of availability
9 of funds has been the over-riding consideration.

10 23. From the appendices it is evident that a
11 substantial portion -- nearly 20 per cent -- of
12 Provincial borrowing over the past decade was under-
13 taken in the United States market. Although the bulk
14 of this was for the New Brunswick Electric Power
15 Commission, the availability of this market has been,
16 and is, of considerable importance to the Province.
17 Initially, the Province wished to cultivate the
18 American market in order to develop a broader market
19 for provincial borrowing -- a market to be exploited
20 as conditions in the Canadian market indicated.

21 Accordingly, over the years the Province registered
22 with the Securities Exchange Commission, developed
23 the Savings Bank Market and in 1957 was successful
24 in having its Moody's bond rating raised to a more
25 satisfactory level.

26 24. In most cases the American market has been
27 exploited on the basis of a judgment of the best net
28 cost to the Province after considering the relationship
29 between Canadian and United States interest rate levels
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2 assumptions, but nonetheless certain rules of thumb
3 were developed which indicated the degree of exchange
4 fluctuation which could be absorbed by a given interest
5 rate differential. This procedure implicitly entailed
6 a judgment of the probable values of the Canadian
7 dollar over the life of the bond issue. Despite this,
8 the risks of such borrowing are very great, and recent
9 events have born this out.

10 25. The only calculation of potential borrower
11 can make are those related to the projected develop-
12 ment of present trends. It is impossible to foresee
13 the course which national government policy will follow,
14 or to consider its effect on the cost of such
15 borrowing. In our experience the artificial hazards
16 are more significant than so-called "natural" ones.
17 The increase in the withholding tax and the devaluation
18 of the Canadian dollar have both had the effect of
19 increasing the cost and restricting the availability
20 of United States funds.

21 26. In terms of duration, the bulk of Provincial
22 borrowing has been long-term in nature. Over 80 per
23 cent of such issues have maturities in excess of
24 9 years; some 10 per cent maturities of five years,
25 and the remainder, a maturity of less than three
26 years. In addition, the Province does a considerable,
27 but varying, volume of borrowing by way of bank over-
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1 financing the Beechwood Power Project), nor has it
2 entered the so-called "savings" bond" field.

3 27. Obviously, much consideration has been
4 given these possibilities, -- particularly the question
5 of the issue of demand paper or parity bonds. While
6 attracted by the annual sales of such Federal bonds
7 in New Brunswick and by the amounts raised by some
8 other provinces, we have been deterred by two major
9 considerations, about which there is insufficient
10 data to permit more than a guess:-

11 (1) the degree to which annual redemption
12 rates would fluctuate and the extent to which
13 the Province's ability to meet such
14 fluctuations would be affected by Federal
15 and chartered bank policies.

16 (2) the extent to which Provincial entry
17 into this field would affect the ability
18 of municipalities to meet their borrowing
19 requirements. This is most important since
20 it is estimated that over 90 per cent of
21 municipal offerings are sold within the
22 Province.

23 Furthermore, since the Federal Government have, at least
24 temporarily, vacated the long-term bond market in favour
25 of the provinces, we have been inclined towards the view
26 that it might not be appropriate for the Province to
27 compete with them in the short-term market.

28 28. The other unknowns in this regard, such as
29 the amount available or the interest rates attached
30 to obtaining it, will yield an acceptable judgment,



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1 but we have no satisfactory answers to the two
2 questions raised above. As a result, the Province
3 is not as yet prepared to enter the field.

4 29. In the course of such borrowing, the
5 experience of the Province of New Brunswick points
6 to several conclusions, aside from the major fact
7 that borrowing costs are excessive. First, borrowing
8 is more or less a residual resulting from the relation-
9 ship between spending and taxing, and as such, is
10 tending to grow but on a sporadic basis. Thus,
11 decisions to borrow can be greatly affected by not only
12 provincial, but national, decisions related to
13 government spending and taxation. Our recommendations
14 will be framed within this context.

15 20. Secondly, we have found the United States
16 market to be important to us, not merely from the
17 cost of money viewpoint, but from the point of view
18 of availability. The Canadian capital markets tend
19 to form judgments about the limits of Provincial
20 borrowing in any given year, and we have found it
21 useful to be able to fall back on the American market
22 in years when our needs have exceeded such "limits".
23 Furthermore, it is imperative that some such
24 alternative be available in cases where the Canadian
25 market is either unable or unwilling to meet all the
26 needs of the Province. It is very easy to conclude
27 that funds are always available if you're willing
28 to pay the cost; however, in the period following
29 the Conversion Loan operation the province, after
30 consultation with investment people, formed the



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consultation with investment people, formed the



1 judgment that the Canadian market would rather not
2 meet its needs. We were not any happier, because
3 we knew that an issue at 8 or 10 per cent would be
4 acceptable.

5 31. Thirdly, and following from the above; --
6 the Province has always been able to obtain its required
7 capital, but with the United States market not available,
8 it is difficult to expect that this will always be the
9 case. Including, Crown Corporations and municipalities,
10 it is not difficult to foresee a large increase in
11 provincial borrowing, when combined with increasing
12 national demand, producing a result whereby the
13 Province would have great difficulty in entering the
14 market. Such a situation would necessitate some form
15 of Federal aid to provincial borrowing, and
16 recommendations will be made in this connection.
17 And finally, we have a number of observations to make
18 with respect to problems involving the institutional
19 structure of the capital market. These, however, will
20 be presented in a later section of the brief.

21 -----
22 32. This combination of a rising pattern of
23 expenditures and a restricted tax base point to
24 increasingly heavier reliance on borrowing to meet
25 provincial financial requirements. In turn, this will
26 produce higher borrowing costs which add further
27 to the strain on revenues and increase the pressure
28 for additional borrowing. At some level there is
29 undoubtedly a borrowing saturation limit, with the
30 ultimate restriction of provincial services.



judgment that the Canadian market would rather not
meet its needs. We were not any happier, because
we knew that an issue at 8 or 10 per cent would be
acceptable.

31. Thirdly, and following from the above; --

the Province has always been able to obtain its require
capital, but with the United States market not available
it is difficult to expect that this will always be the
case. Including, Crown Corporations and municipalities
it is not difficult to foresee a large increase in
provincial borrowing, when combined with increasing
national demand, producing a result whereby the
Province would have great difficulty in entering the
market. Such a situation would necessitate some form
of Federal aid to provincial borrowing, and
recommendations will be made in this connection.
And finally, we have a number of observations to make
with respect to problems involving the institutional
structure of the capital market. These, however, will
be presented in a later section of the brief.

32. This combination of a rising pattern of
expenditures and a restricted tax base point to
increasingly heavier reliance on borrowing to meet
the needs of the Province. This will
produce higher borrowing costs which add further
to the strain on revenues and increase the pressure
for additional borrowing. At some level there is
undoubtedly a borrowing saturation limit, with the



1 33. Clearly, solutions to this dilemma lie more
2 in the area of fiscal than in monetary policy, but they
3 are felt to be relevant to the considerations of the
4 Royal Commission on Banking and Finance. Essentially,
5 to assist the province in meeting the financial
6 requirements necessary to provide average Canadian
7 levels of services, involves in our view solutions
8 on two fronts. One designed to improve the economy
9 of the Province over the years; and the other, to
10 enable the Provincial Government to maintain an
11 appropriate level and quality of services until such
12 improvement is achieved. The only alternative to this
13 is continued retardation leading to the economic and
14 cultural disappearance of the Province as a part of
15 Canada.

16 34. Although such a financial solution may not
17 directly involve monetary policy, the effect of the
18 principles implied therein have important implications
19 for the entire financial structure of Canada. Aside
20 from the broader economic policies discussed later, it
21 is our view that assistance must be forthcoming from
22 the Federal level to enable the provinces to cope
23 with the responsibilities allocated to them. In this
24 respect Federal fiscal policy would become a substitute
25 for monetary policy by increasing the flow of funds to
26 the provinces in any one of several ways

27 35. As an alternative to assisting the provinces
28 in meeting their borrowing requirements by loans,
29 grants, subsidies or, as it now does, by staying out
30 of the long-term bond market, the Federal Government



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1 might well consider the possibility of reducing provin-
2 cial borrowing requirements by reducing provincial
3 spending requirements. If provincial borrowing has
4 significant effects on capital markets, it is only as
5 a reflection of the level of provincial spending.
6 Such an objective could be met by a re-allocation
7 of taxation powers, or a wide variety of techniques.

8 36. With regard to the latter, it is our view
9 that the time has come for a searching study of the
10 role that Federally developed shared-cost programmes
11 play in determining the rates of growth in provincial
12 spending. However real is the need for many such
13 programmes, the ability of the junior government to
14 finance its share must be given full weight. In this
15 connection, we have found that such programmes suffer
16 from four major defects:

17 (1) There is no, or little, attempt to
18 consider the different fiscal capacities
19 of the provinces, or the relative needs of
20 the provinces in relation to particular
21 services. At present any programme based
22 on equal per capita payments or percentage
23 of total cost means normally that the New
24 Brunswick share will be financed only with
25 a heavier burden of taxation (or potential
26 borrowing requirement).

27 (2) Existing programmes of this type are
28 heavily biased towards health and welfare
29 services. However great the need in this
30 area, this practice very much restricts the



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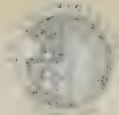


1 ability of the province to allocate funds
2 for industrial and economic development
3 purposes of important long-term significance.
4 This is particularly so in the case of
5 Federally designed "crash" programmes --
6 which expire in a relatively short period
7 of time. These, in effect result in a
8 scramble for funds, often resulting in poor
9 planning and the diversion of funds from
10 other long-term, worthwhile programmes.

11 (3) In the case of most such programmes
12 the provinces are forced to finance the
13 Federal share of the cost, sometimes for very
14 long periods. This has important effects on
15 provincial short-term borrowing requirements.

16 (4) From the provincial point of view, there
17 is too little flexibility, both as regards
18 selection between various shared-cost
19 programmes and with respect to the speed
20 with which individual programmes are
21 developed. Without the advantage of an "average"
22 fiscal capacity, we have found it difficult
23 to participate in many programmes with
24 "average" speed.

25 37. In view of the degree to which such programmes
26 bulk large in the Province's spending programme, it is
27 recommended that the Commission examine their
28 implications for provincial taxing and borrowing.
29 More specifically, it is suggested that the principle
30 of fiscal need be built into such programmes, that the



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In view of the degree to which such programmes

applications for provincial funding are submitted.

will need to be built into such programmes.



1 province be given the unprejudiced ability to elect
2 between programmes, and be allowed greater participation
3 in the planning and timing of such programmes.
4 Furthermore, in our experience the nature of Federal
5 administrative controls on such programmes seriously
6 interferes and influences the way in which Provincial
7 programmes are developed. This is an untenable situation
8 and we strongly recommend that it be corrected. In
9 making such recommendations it should be emphasized
10 that the Province of New Brunswick is not critical
11 of the principle of such joint spending programmes.
12 On the contrary, they have been instrumental in
13 providing the people of the Province with services
14 otherwise unobtainable, and have become an important
15 part of Federal-Provincial fiscal relationships. What
16 is suggested, however, is that they be designed to
17 better meet Provincial requirements. Particularly,
18 there is an urgent need for such programmes in the
19 field of economic development -- programmes tailored
20 to the requirements of the less developed regions
21 of Canada.

22 38. With respect to Government borrowing
23 specifically, it has been our experience that under
24 normal conditions the existing financial system has
25 been able to meet the needs of the Province. Obviously,
26 we would subscribe to any methods designed to reduce
27 the costs of provincial borrowing, and a number of
28 these have already been suggested to the Commission.
29 However, it is our view that given an adequate reflection
30 of relative fiscal needs in Federal fiscal policies, and



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However, it is our view that given an adequate reflection
of relative fiscal needs in Federal fiscal policies, or



1 some reorientation of Federal spending emphasis, then
2 no such permanent borrowing assistance will be necessary.
3 It is felt that this would be the most desirable
4 and most effective method of diverting national savings
5 into provincial spending programmes.

6 39. This position does not, however, preclude
7 the possibility of some form of short-term assistance
8 to be made available from time to time as circumstances
9 warrant. We would suggest that such assistance might
10 take two forms. First, it should be possible for the
11 Federal Government to develop sufficient flexibility in its
12 financial policies to permit certain borrowers to be
13 sheltered from their effects. We can see no great
14 need for all such policies to be "national" in
15 character. Such selectivity would be particularly
16 important in times of rising interest rates; and,
17 secondly, could be supported with other measures aimed
18 at providing short-term borrowing assistance to
19 borrowers of either weak market power or adversely
20 affected by some unrelated national financial policy.
21 For example, some of the Government Funds could be
22 opened up for limited purchases of provincial or
23 municipal bonds in times of extremely high cost or
24 limited availability of funds.

25 40. These suggestions are designed to aid
26 for limited periods only those borrowers who experience
27 difficulty in the market or for whom the cost of such
28 borrowing would be unduly excessive. The difficulties
29 inherent in determining who would receive assistance,
30 when and for what period are recognized, but it is



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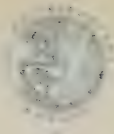
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inherent in determining who would receive assistance,
when and for what period are recognized, but it is



1 suggested that the Bank of Canada might well be able
2 to develop the necessary rules of thumb. It is
3 therefore recommended that the Royal Commission carefully
4 examine this possibility.

5 41. An additional problem which the Province
6 has experienced involves the scarcity of information
7 pertaining to the activities of both the Government
8 of Canada and The Bank of Canada. A clearer indication
9 of the Central Bank's attitude towards current
10 situations would be most helpful to the Province
11 in determining its own borrowing and spending policies.
12 The same applies to the Federal Government and,
13 subject to some limitations, it should be possible
14 to keep the provinces informed as to the probable
15 course of Federal policy, particularly in the fiscal
16 and economic field. From the point of view of
17 provincial financing these suggestions call for a
18 much closer relationship between the Federal Government
19 and Bank of Canada on the one hand, and the province
20 and their municipalities on the other. Many of the
21 provinces are not equipped to make the precise
22 judgments necessary for sound and efficient financial
23 policies, and both the Federal Government and the Bank
24 of Canada should play a leading role in assisting in
25 this respect.

26 42. There have been suggestions in this direction
27 which would establish a central co-ordinating body
28 (possibly the Bank of Canada) for both Federal and
29 provincial borrowing policies. This concept would, if
30 extended to government investment programming, provide



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which would establish a central co-ordinating body (possibly the Bank of Canada) for both Federal and

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1 the machinery to promote co-ordinated economic
2 planning, which would be particularly useful in
3 developing counter-cyclical spending programmes.
4 With the aggregate importance of junior governments,
5 such co-ordinated activities would seem essential.
6 We therefore recommend that the Commission explore
7 the possibility of establishing such machinery for
8 co-ordinated borrowing and investment.

9 43. Finally, the rapid increase in the demand
10 for the nation's savings since World War II, not only
11 from provincial governments, but from the Federal
12 Government, public utilities, municipalities and from
13 the private sector, has cut deeply into the nation's
14 savings. How deeply is a question open to debate,
15 but the competition for funds has become more intense.
16 In this regard it has been our experience that the
17 Canadian market has not always been adequate to meet
18 the demand, and thus some alternative was necessary.

19 44. It is understood that the Royal Commission
20 will undertake a study to determine the adequacy of
21 Canadian savings relative to domestic demand. It is
22 suggested that any such study give careful
23 consideration to the need for having the United States
24 market available, at least to certain classes of
25 borrowers.

26
27 Effects of Monetary Policy on Government Financing

28 45. The preceding section indicated that the
29 ease with which the Province obtained funds from
30 capital markets has varied from time to time. The



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Effects of Monetary Policy on Government Financing
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1 municipalities have had similar experience, and to the
2 extent that such market changes have been the result
3 of monetary policy, both levels of government have
4 been affected by it. These effects can take a number
5 of forms -- higher borrowing costs, reduced availability
6 of funds, etc. -- when monetary policies of restraint
7 are in effect, and the opposite under conditions of
8 monetary ease. Insofar as the effects of such
9 policies on Government financing are concerned, it is
10 with conditions of restraint that this section is
11 concerned.

12
13 Provincial Government

14 46. A policy of monetary restraint aimed
15 at reducing or restricting aggregate demand can
16 achieve this effect on Government spending only to the
17 extent that the Government is a user or potential user
18 of borrowed funds. However, it is important to
19 differentiate between the effect of such a policy on
20 borrowing and the effect on spending. In many cases
21 the higher costs of borrowing are not a major consider-
22 ation in decisions to spend. In the development of
23 electric power generating capacity, the main factor
24 is to develop additional plant in pace with increases
25 in demand. Monetary policy cannot affect the decision
26 to spend, but it has in New Brunswick been a factor
27 in related decisions. The prospect of shrinking
28 availability and high cost of funds has affected the
29 timing and nature of the borrowing to finance such
30 non-discretionary expenditures. In addition, it may



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1 well affect decisions as to the type of expenditure --
2 possibly to avoid highly capital intensive projects.
3 On balance, however, these types of expenditures
4 are unaffected by monetary policy unless a policy
5 of restraint is pursued to the point where funds are
6 unavailable at any price.

7 47. In such periods of credit restriction the
8 Province has found that its borrowing limits tend to
9 shrink. It is our view that this undoubtedly happens
10 to most provincial borrowers, because of institutional
11 portfolio policies which tend to limit funds available
12 for investment in government paper. To this can be
13 added the fact that New Brunswick bonds suffer from
14 the disadvantage of being less well known than those
15 of many other borrowers, and represent an area with
16 less than national average rates of economic growth.
17 It is difficult to judge precisely the degree to
18 which these factors become operative as the demand
19 for funds intensifies, but it is only logical to
20 assume that they are factors.

21 48. Such a shrinkage of borrowing potential
22 has had no apparent impact on the level of spending
23 in non-discretionary fields, but may well have had
24 the effect of deferring some spending in capital
25 programmes where such decisions could be made. This,
26 however, is a small portion of total government
27 spending. Nonetheless, there has been an impact on
28 Government financial operations in two other ways.
29 First, if a shrinkage of borrowing potential occurs
30 in the Canadian market, the Province, being uncertain



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First, in a situation of borrowing potential

in the Canadian market, the Province, being uncertain



1 of its ability to obtain required funds, may be (and
2 has been) forced somewhat prematurely into sources of
3 borrowed funds where the potential is still high.

4 The obvious outlet in the past has been the United
5 States market, and the risks associated with it.

6 49. In addition there are other alternatives
7 when such shrinkage occurs. We have noticed that in
8 such periods there is a greater tendency to judge the
9 merits of capital programme expansion, using the
10 availability of Federal funds as the main criterion.
11 As a result, when the availability of funds to a
12 province is reduced, through credit restrictive policies,
13 the main effect is to increase provincial borrowing
14 costs and risks, and also to influence the nature
15 of capital spending. There are no discernible effects
16 on the aggregate level of spending itself. In certain
17 cases, this spending has been reduced by indirect
18 impact through Provincial-Municipal shared-cost
19 programmes, of municipal inability to obtain funds.

20
21 Municipal Governments

22 50. Many of the same considerations are involved
23 in assessing the impact of monetary policy on the
24 Province's municipalities. However, given the smaller
25 size of municipal borrowers and the increased
26 marginality of their borrowing, it is conceivable
27 that the effect of credit restriction would be more
28 sharply felt. The increases in borrowing costs are
29 less easily absorbed at the municipal level, with the
30 result that the timing of many expenditures is greatly



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Municipal Government

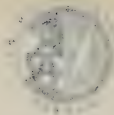
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1 affected.

2 51. As has been indicated, the great majority
3 of municipal bonds are sold within the province, and
4 mostly without the benefit of a Provincial guarantee.
5 The Province does, however, assist municipal bodies in
6 obtaining their borrowing requirements in three specific
7 ways. First, by providing a Provincial guarantee
8 for certain types of borrowing; secondly, by purchasing
9 portions of municipal bond issues for placement in
10 Government trust and sinking funds; and thirdly,
11 by co-ordinating municipal borrowing and providing
12 information and assistance in the direction of
13 developing sound marketing policies. The first two
14 policies are implemented largely on the basis of need,
15 with the Province forming a judgment as to the portion
16 of bond issue it need purchase to keep the market firm.
17 The same approach is applied, apart from School Board
18 borrowing, to Municipal requests for the Provincial
19 guarantee. It is felt that these techniques assist
20 the municipalities in obtaining money at slightly
21 less cost that would otherwise be the case.

22 52. The Province's involvement has, therefore,
23 provided it with some means, however general, of
24 developing a judgment as to the effects of credit
25 restrictions on municipal borrowing. For example, in
26 the period following the 1958 Conversion Loan the money
27 supply was not permitted to expand and, in fact, by March,
28 1960 was somewhat lower than the level prevailing
29 in August of 1958. Consequently, interest rates rose
30 rapidly and many municipalities complained of difficulties



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Nethercut & Young

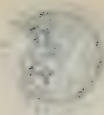
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1 in the market. Although the statistics are somewhat
2 lacking in precision, it is estimated that during
3 this period Provincial Government purchases of
4 municipal bonds increased substantially; by 10 per
5 cent by 31 March, 1959 and by another 10 per cent
6 by 31 March, 1960. During this same period the
7 annual rate of increase in municipal debt outstanding
8 declined markedly. In other words, New Brunswick
9 municipalities were reacting to the "credit squeeze"
10 by reducing their annual capital requirements, and at
11 the same time the Provincial Government was increasing
12 slightly its rate of municipal bond purchases.

13 53. It seems reasonable to conclude that both
14 provincial and municipal governments experience
15 increases in costs and reductions in the availability
16 of funds as a result of policies of national credit
17 restraint. Associated with such effects are the less
18 dramatic, but possibly more relevant, effects on the
19 allocation of resources. The Province, in the face of
20 such effects, is forced into other markets, which are
21 not usually available to most New Brunswick
22 municipalities. As a result, many municipal projects
23 of a worthwhile nature are deferred, until periods
24 of cheaper money, or possibly forever. This can only
25 be considered as a desirable consequence of monetary
26 policy when compared with other projects which are
27 relatively unaffected.

28 54. This raises the question of the need for
29 a more selective approach to the implementation of
30 monetary policy -- either through the Bank of Canada



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1 or the Department of Finance. In the previous
2 section of this brief suggestions were made in this
3 regard in order to provide short-term financing
4 assistance to the provinces. These same principles
5 apply in the case of municipalities as well, although
6 different techniques may be required. In our view,
7 the question of ensuring the flow of a satisfactory
8 volume of funds from the capital markets to the
9 municipalities can be examined in three ways.

10 55. First, municipal bond issues could be made
11 more attractive to investors, but some form of
12 Federal subsidy, or artificial markets could be
13 created by Federal regulation or by bond purchases.
14 Secondly, existing markets could be broadened either
15 by altering the practices of existing institutions
16 or creating new ones. This would undoubtedly reduce
17 funds available to other borrowers, some of whom
18 would be forced to either exploit different markets
19 or different financing techniques. And finally,
20 as in the case of the provinces, there are solutions
21 aimed at reducing the borrowing needs of the
22 municipalities by increasing tax revenues available
23 to them or by reallocating spending responsibilities.

24 56. It is our view that such solutions as
25 envisaged by the first two approaches are not a real
26 necessity in New Brunswick at the present time.
27 The local market, under normal conditions, has been
28 able to absorb the bulk of municipal demands with
29 little difficulty. However, with the continuation
30 of prevailing revenue and expenditure growth patterns,



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1 it is likely that the local market will be insufficient
2 for this purpose before too long. In that event
3 some municipalities, particularly the smaller ones,
4 would experience difficulties never before encountered.

5 57. Rather than see some form of permanent
6 interest rate subsidy which would be non-discriminating,
7 or the development of a municipal borrowing pooling
8 system, we would be inclined to meet such a problem
9 through the judicious use of the Government guarantee;
10 at least in the initial stages. We do however believe
11 that the development of a more active market for municipal
12 bonds would be most helpful, but a system of subsidies
13 to achieve this should go hand in hand with some
14 form of regulation of municipal borrowing.

15 58. However, in regard to such solutions there
16 are two pressing issues which must be examined -- the
17 degree to which the capital markets are adequate
18 to meet total borrowing requirements, and the extent
19 to which selective controls are desirable. In the
20 first, if study indicates that national savings are
21 sufficient to meet aggregate requirements, then
22 borrowing assistance on an interim basis is all that
23 is necessary. If this is not the case, then a major
24 reallocation of this market in relation to all borrowers
25 will be necessary. In this respect, we would prefer
26 to see those governments with the more limited taxing
27 powers make fewer demands on the market, rather than
28 have their demands met by some artificial restructuring
29 of the price mechanism. This implies that inter-
30 governmental transfers would be increased as they flow



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of the price mechanism. This implies some form of



1 from senior to more junior levels of government; or,
2 that spending responsibilities would be transferred
3 from junior to more senior levels of government.

4 59. The second issue bears heavily on the
5 question of the differential effect of monetary policy
6 on the process of capital accumulation as between
7 social and industrial capital. For certain classes
8 of borrowers, the lending processes have most uneven
9 effects, which are more than merely of financial
10 importance. We have not been able to agree with the
11 view of the Bank of Canada that -

12 "There is no way open to it (i.e. the central
13 bank) to have a special monetary policy
14 for particular classes of borrowers, particular
15 industries, or particular geographical
16 areas. Such selective action or discrimina-
17 tion lies beyond the scope of monetary
18 policy," or that "It is not possible for
19 monetary policy to operate differentially
20 under our present statutes and banking
21 arrangements."

22 60. Such suggestions that monetary policy is
23 an impartial and non-discriminating means of controlling
24 effective demand have not stood up to investigation.
25 There are undoubtedly discriminatory effects, and in
26 fact are supposed to be if monetary policy is to be
27 reasonably effective. The question is whether such
28 effects should be intentional or otherwise. It is our
29 view that by the use of selective controls many of
30 the adverse effects of credit rationing could be



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1 avoided. Specifically, the recommendations made
2 in the first portion of this submission may well be
3 helpful, as well as the alternatives outlined earlier
4 in this section. In essence, however, we have not
5 been able to undertake the research necessary to enable
6 a precise view to be formed as to specific techniques
7 which would shelter municipal spending from the
8 effects of credit restriction.

9 61. Insofar as Provincial borrowing is concerned,
10 it appears that on balance the main effect of monetary
11 policy is to alter borrowing costs without affecting
12 the level of demand significantly. In view of this
13 fact, and considering the great doubts as to the
14 real effectiveness of monetary policy in controlling
15 aggregate demand, the consequent real increase in
16 social capital costs relative to costs in the private
17 sector seems both unnecessary and undesirable. This
18 raises questions of the desirable mix between fiscal
19 and monetary policy -- an issue discussed in the
20 following section.



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and monetary policy -- an issue discussed in the
following section.



III ECONOMIC IMPLICATIONS OF FINANCING
POLICIES

62. As a borrower in Canadian capital markets the New Brunswick government is concerned with the availability and price of sufficient funds to meet its borrowing requirements, and with the effect that both institutional and government policies have on its borrowing operations. However, given the responsibilities of the Government to the people of New Brunswick and its responsibility in the field of economic policy, the Government is also concerned about the aggregate implications of such financial policies on the economy of the Province, and on its growth potential. In this sphere, any assessment of the adequacy of such policies to meet the economic requirements of New Brunswick inevitably entails consideration of both fiscal and monetary areas of action. This section will therefore deal with the economic requirements of the provincial economy, the role that monetary and fiscal policies should play in meeting these requirements, the relationship between such policies, and the effects which these policies have had on the economy of the Province.

63. Although it is not intended that New Brunswick should speak for the entire Atlantic Region, it should be pointed out that much of this analysis is based on a study by Professor A.K. Cairncross, which was prepared for the Premiers of the four Atlantic Provinces. Furthermore, much of this section is based on statistical data available from numerous



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1 sources, but most readily from the research series
2 sponsored by the Atlantic Provinces Research Board.
3 This mass of statistical detail has not been included,
4 but could be made readily available to the Commission.
5 64. Generally, this section of our submission
6 emphasizes three major themes, which form a framework
7 within which our recommendations are made.

8 65. First, the problem of retarded economic
9 growth in New Brunswick and other similar areas of
10 Canada is a national problem requiring Federal
11 attention and spending if solutions are to be found.
12 Second, no single measure, either fiscal or monetary,
13 on the part of Government can hope, by itself, to
14 overcome the forces impeding development. It is
15 likely that the whole range of fiscal and monetary
16 policies must be brought into play. It is clear
17 that this can only be achieved through co-ordinated
18 planning both at the Federal level itself and between
19 the Government of Canada and the provinces. Third,
20 in the absence of Federal Government acceptance of
21 such responsibility in promoting balanced economic
22 growth in Canada, and if the required co-operation
23 and co-ordination is not achieved, then it is difficult
24 to envisage changes in the Canadian financial system
25 which would make any significant contribution to meeting
26 the requirements of the New Brunswick economy.

27
28 The New Brunswick Economy

29 66. An understanding of the main economic forces
30 operating in the New Brunswick economy is necessary



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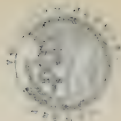


1 as background for the sections on national policy
2 which follow. New Brunswick's prosperity today, as
3 in the past, is dependent primarily upon domestic and
4 foreign demand for its agricultural products, lumber,
5 pulp and paper, fish, and coal. Secondary manufactur-
6 ing in the Province has never quite recovered from the
7 decline of the wooden shipbuilding industry in the
8 decades surrounding Confederation. Today, little
9 more than 5 per cent of total employment is derived
10 from this sector of the economy.

11 67. This dependency on external markets has
12 left New Brunswick particularly vulnerable to short-
13 term fluctuations in world demand and prices. This
14 has resulted in short bursts of economic expansion
15 interspersed with relatively long and dreary periods
16 of economic stagnation. As a result, personal income
17 per capita in the Province is only two-thirds the
18 Canadian average. Unemployment has persistently remained
19 close to double the national rate despite large scale
20 out-migration.

21 68. The economic outlook for the Province
22 is perhaps best reflected in the labour market.

23 69. While the level of production from the
24 primary resource-based industries has been rising
25 in recent years the increase has been relatively
26 modest and certainly not enough to prevent employment
27 from falling due to increased mechanization. The
28 long-term outlook for some industries in this sector,
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1 will show much increase over present levels even with
2 increased production.
3 70. During the past decade the decline in
4 employment in this sector has been partially offset
5 by the expansion of the construction and service
6 industries. However, it is not likely that construction
7 can be continuously expanded, and growth in the service
8 sector must be fed by income growth resulting from
9 industrial activity.
10 71. Thus, the bulk of new employment opportunities
11 will have to come from secondary manufacturing. But,
12 as has already been suggested, this sector has shown
13 little net growth over the past decade. Located on
14 the periphery of the national market and handicapped
15 by distance from the principal population centres,
16 New Brunswick manufacturers have had to be content,
17 for the most part, with producing for the small and
18 local regional market. Producers can seldom take
19 advantage of the economies of scale deriving from the
20 use of mass-production techniques or from the use
21 of the latest technologies. The resulting small
22 profit margins have led to an inability to finance
23 market, product, or design research -- all basic
24 ingredients in the process of economic growth.
25 72. This combination of declining employment
26 in the primary sector of the economy and stagnation
27 in secondary manufacturing has given rise to a
28 substantial and growing labour surplus which is being
29 further aggravated by one of the highest rates of
30 natural population increase in Canada (the difference



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Nethercut & Young

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1 between crude birth and death rates). Symptoms of
2 this surplus are the low prevailing labour force
3 participation rates, the high unemployment rate, and
4 the lengthy average duration of unemployment. The
5 large numbers of subsistence workers in agriculture,
6 fishing, and logging are further evidence of the
7 chronic imbalance of labour demand and supply.
8 73. In the past, and especially during the early
9 and middle 1950's, large-scale emigration provided
10 a partial solution to this problem of enormous
11 wastage of our manpower resources. This particular
12 cure, however, is only slightly better than the disease,
13 for the emigrants have been largely concentrated in the
14 young adult age groups who would, in a more buoyant
15 economy, have formed one of the most important of the
16 resources of the Province. Between 1949 and 1959, the
17 age group 20-24, increased by 0.7 per cent in New
18 Brunswick compared with the national average of 7.3
19 per cent. The age group 25-34, declined in New
20 Brunswick over the same period by 6.7 per cent compared
21 to an increase in Canada of 17.9 per cent! Large-
22 scale emigration of our young adults has also eroded
23 the tax base of the Provincial Government while at the
24 same time increasing the proportion of the total
25 population classified as dependents with important
26 implications for the social services demanded of
27 the Provincial Government. In 1959, 45 per cent of
28 New Brunswick's population was in the age group 0 - 14
29 and 65 and over compared with 40 per cent in Canada.
30 In the same year 46 per cent of New Brunswick's



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1 population was below the age of 20 compared with
2 a national average of 40 per cent.

3 74. In recent years, and especially since
4 1957, the rate of out-migration from New Brunswick
5 has been decreasing. While the reasons for this
6 phenomenon are difficult to determine precisely, it
7 is likely that the emergence of labour surpluses in
8 the more prosperous parts of the country has been a
9 major factor. Unemployment rates have still not
10 fallen to acceptable levels in Ontario and Quebec
11 despite the surprising absence of growth in the labour
12 force in these two provinces over the past year.
13 Obviously with little hope of obtaining a job quickly
14 elsewhere, New Brunswickers have had to stay home.
15 Moreover, despite the optimism of current economic
16 forecasts, there are no apparent dynamic forces at
17 play in the economy which will alter this situation
18 in the near future.

19 75. We believe that the existence, now and for
20 the foreseeable future, of a sizeable and growing labour
21 surplus in New Brunswick is more than ample justification
22 for immediate measures being taken to establish
23 secondary manufacturing plants in the Province.
24 The Special Committee of the Senate on Manpower
25 and Employment reached much the same conclusion
26 in its final report

27 "Over the long run there are only two solutions;
28 either the people move out to better
29 opportunities elsewhere, or better
30 opportunities are made available to them



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Obviously with little hope of obtaining a job quickly elsewhere, New Brunswickers have had to stay home. Moreover, despite the optimism of current economic forecasts, there are no apparent dynamic forces at play in the economy which will alter this situation in the near future.

15. We believe that the crisis now and for

the foreseeable future, will be a continuing labour surplus in New Brunswick in more than ample justification

for immediate measures being taken to subsidize temporary manufacturing plants in the province.

The general situation of the labour market in Atlantic Canada is similar to that in the rest of the country.

16. The people have now to be kept

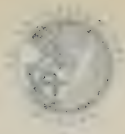
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1 where they are. The massive migration
2 of the population is neither socially nor
3 economically desirable, and we reject this
4 possibility. Therefore, the other course,
5 namely, of providing better opportunities
6 for these people in the areas concerned,
7 must be undertaken with determined effort."
8 This quotation refers to the Atlantic Region as a whole;
9 however, it is equally valid for New Brunswick.

10
11 Policies Affecting the Financial System

12 76. The Federal Government has the over-all
13 responsibility in Canada for ensuring price stability,
14 an adequate rate of growth in the economy, and for
15 maintaining full employment. Acceptance of this
16 responsibility is stated explicitly in the White Paper
17 on Employment and Income presented to Parliament
18 in 1945, and a wide range of policy measures exist
19 whereby this responsibility may be pursued. The
20 most important of these measures, of course, are
21 monetary, fiscal, and debt management policy. As
22 the Governor of the Bank of Canada stated in his
23 1961 Report to the Minister of Finance, these policies
24 "are inter-dependent and to some extent inter-
25 changeable" necessitating "a high degree of co-ordination
26 to ensure that the blend or 'mix' of these policies
27 is purposefully directed towards attaining the over-
28 all economic objectives of the community". Presumably,
29 in the absence of the requisite degree of co-ordination,
30 conflicting policies may be pursued leading to



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1 misallocation of resources; price instability, and
2 retarded rates of growth.

3 77. There is evidence to suggest that national
4 economic policies have not always been effectively
5 co-ordinated in the post-war period and that this has
6 led to unnecessary inflation and to overly harsh
7 anti-inflationary measures. The spectacle of sub-
8 stantial increases in the money supply over a few
9 short months followed by over a year of determined
10 restriction and contraction, both in conjunction
11 with generous Federal deficit spending, is clearly
12 a part of such evidence. The rather spectacular
13 departure of the previous Governor of the Bank of
14 Canada a year ago brought this issue dramatically
15 into the spotlight of public debate.

16 78. The undesirable consequences of persistent
17 price inflation are well-known and do not need repeating
18 here except to point out that these consequences
19 are especially severe for areas and industries dependent
20 upon export markets for their prosperity. Conversely,
21 restrictive anti-inflationary measures bear particularly
22 heavily upon those regions in which small business
23 establishments predominate. The New Brunswick economy
24 is a small business economy, and as we have already
25 indicated, it is particularly dependent upon export
26 markets for the output of its industries. We believe
27 that the absence of inflationary trends in Canada
28 is not only desirable -- it is almost a "sine qua
29 non" for the future of New Brunswick industry, at least
30 as long as it remains primarily export-oriented.



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79. Closer co-ordination and integration of Government economic policies would provide greater assurance that inflationary tendencies can be contained. Thus, we welcome the statement of Mr. Rasminsky in the 1961 Bank of Canada Annual Report in which he says, "the need for close co-ordination of monetary, fiscal, debt management and other economic policies point to the great importance of close and continuous contact between the Bank (of Canada) and the Government" and Mr. Fleming's rejoinder, "regular and close consultation between the Governor (of the Bank of Canada) and the Minister of Finance is of the essence."

80. At the same time, we feel that these statements do not go far enough. In particular, they appear to place too much emphasis on the voluntary nature of the proposed closer working relationship. We strongly urge the Commission to consider recommending the appointment of a Standing Committee along the lines proposed by the Radcliffe Committee in the United Kingdom in its Report on the Working of the Monetary System. As in the United Kingdom, this Commission would be advisory in character and would ensure regular review of all matters relating to the co-ordination of monetary policy with the Government's economic policy as a whole. It is possible that Mr. Rasminsky had this idea in mind when he stated in his Annual Report, "even though such precaution may now seem unnecessary, consideration should be given to setting up a routine procedure for regular meetings at fairly frequent intervals between the Minister of



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do not go far enough. In particular, they appear

to place too much emphasis on the voluntary nature

of the proposed closer working relationship. We

are of the opinion that the

the appointment of a Standing Committee along the

lines proposed by the Radcliffe Committee in the

United Kingdom in the Report on the Working of the

Monetary System. As in the United Kingdom, this

Commission would be advisory in character and would

ensure regular review of all matters relating to the

co-ordination of monetary policy with the Government's

economic policy as a whole. It is possible that

Mr. Rasminsky has this idea in mind when he stated

in his Annual Report, "even though such consultation

may now seem unnecessary, consultation should be

continued as a routine, involving the regular meetings

at fairly frequent intervals between the Minister of



1 Finance and the Governor".

2 81. In addition to the appointment of a
3 Standing Committee to ensure integration of monetary
4 policy with other Government economic policy, we urge
5 the Federal Government to appoint an advisory body of
6 economic experts to the Prime Minister. This body
7 would be outside the departmental structure and
8 would report on economic trends and suggest policy
9 changes designed to ensure maximum achievements of
10 national economic objectives. At the present time,
11 economic policy is formulated at the departmental
12 level with the resulting loss of effective co-ordination
13 and perspective on the needs of the Government and
14 country as a whole. A special task of the proposed
15 advisory body might be the co-ordination of Federal
16 economic policies with those of the Provinces, an
17 objective recommended earlier in this submission.
18 We have some reservations about the degree to which
19 Federal-Provincial co-ordination of this type would
20 be effective, but the provinces have some responsibility
21 here and junior government expenditures constitute a
22 formidable portion of the Gross National Product.
23 On this basis, some attempt is both worthwhile and
24 necessary, since in the past the views and needs of
25 the Provinces have not been sufficiently considered,
26 with important and often adverse consequences
27 for provincial budgeting.

28 82. Monetary policy in Canada is "in the ordinary
29 course of events" the responsibility of the Bank of
30 Canada. In the exercise of its responsibility, the



31. In addition to the appointment of a

the Federal Government to appoint an Advisory body of economic experts to the Prime Minister. This body would be outside the departmental structure and would report on economic trends and suggest policy changes designed to ensure maximum achievement of national economic objectives. At the present time, economic policy is formulated at the departmental

level with the resulting loss of effective co-ordination and perspective on the needs of the Government and country as a whole. A special task of the proposed Advisory body might be the co-ordination of Federal economic policies with those of the Provinces, an objective recommended earlier in this submission. We have some reservations about the degree to which Federal-Provincial co-ordination of this type would be effective, but the provinces have some responsibility

formidable portion of the Gross National Product. On this basis, some attempt is both worthwhile and necessary, since in the past the views and needs of the Provinces have not been sufficiently considered with important and often adverse consequences

for national budgeting. Monetary policy in Canada is "in the ordinary course of events" the responsibility of the Bank of Canada. In the exercise of its responsibility, the



1 Bank has held itself to be bound by the section of the
2 Bank of Canada Act which defines its function as
3 being "to regulate credit and currency in the best
4 interests of the economic life of the nation", with
5 emphasis on the word "nation". Indeed, the Bank
6 has refused to pursue a monetary policy which
7 discriminates between different parts of the country.
8 This is revealed in several statements by the Bank,
9 some of which have been mentioned earlier --

10 "To bring about an increase in the total
11 quantity of money does not determine how
12 or in what part of the country the persons
13 who acquire the monetary resources will
14 spend, save, lend, or invest them."

15 And finally,

16 "while the central bank can stimulate an
17 increase in the total of Bank deposits
18 and bank assets it cannot usually influence
19 the allocation of the increase towards any
20 particular industry or sector of the economy,
21 to local governments, or to particular
22 regions; the actual distribution of the
23 increase will depend on many factors which
24 are outside the field of the central bank."

25 83. It is our contention that monetary policy
26 has just those effects and influences which are above
27 indicated to be outside its scope. Monetary policy
28 is a blunt instrument operating in a highly imperfect
29 market -- it has uneven effects, side effects and
30 special effects which are unintended and in many



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indicated to be outside its scope. Monetary policy
is a blunt instrument operating in a highly imperfec-
market -- it has uneven effects, side effects and



1 instances, unknown and undesirable.

2 34. Accordingly, we suggest that the Bank's
3 interpretation of its responsibility has been too
4 narrow. We feel strongly that monetary policy can
5 be made more flexible in response to the differing
6 needs of the various regions. At no time in the post-
7 war period have inflationary trends been evident
8 in New Brunswick, yet there has been little or no
9 attempt by the monetary authorities or the banking
10 system to shield New Brunswick from the consequences
11 of credit restrictions. The Government of New
12 Brunswick in conjunction with the Governments of
13 Nova Scotia, Prince Edward Island, and Newfoundland
14 in 1960 commissioned Professor A.K. Cairncross, who is
15 currently Economic Advisor to the British Government,
16 to study this situation. In particular, he was
17 to examine:

18 "the effects of monetary policy on the
19 economy of the Atlantic Provinces and to
20 recommend methods by which it might be made
21 flexible so as to meet the particular needs
22 of these provinces."

23 His report was published by the Atlantic Provinces
24 Research Board early in 1961. The report concludes
25 that:

26 "what is wanted is a method of deflecting
27 demand from the bottlenecks and points of
28 pressure where inflation is bred towards
29 resources that are inadequately employed, so
30 as to allow the whole economy to reach a



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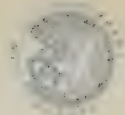
1 higher level of activity without generating
2 inflationary symptoms For this
3 purpose, monetary policy is only one of the
4 instruments that can be used and not
5 necessarily the most powerful or the most
6 satisfactory."

7 85. In the field of monetary policy, Professor
8 Cairncross suggested that pressure be applied to the
9 chartered banks by the Bank of Canada to exempt selected
10 areas of the country from the full force of credit
11 rationing. New legislation would not be needed for
12 this purpose. This policy would not mean that the
13 chartered banks would, in effect, subsidize borrowers
14 in areas of economic retardation through lower interest
15 rates but only that the banks would:

16 "refrain from taking action in these areas
17 dictated to them over the rest of their
18 operations by concern for their liquidity."

19 86. We strongly urge that the Bank of Canada
20 in co-operation with the Federal Government and the
21 chartered banks give consideration to the implementation
22 of this proposal. We also suggest that the Bank of
23 Canada Act be amended so to make explicit the
24 responsibility of the Bank to conduct its operations
25 "in the best interests of the economic life" of the
26 constituent regions as well as "of the nation" with
27 the proviso, of course, that in cases of conflict,
28 national considerations would predominate.

29 87. The increasingly important role played by the
30 Industrial Development Bank in the New Brunswick



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85. In the field of monetary policy, Professor
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this purpose. This policy would not mean that the
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the proviso, of course, that in cases of conflict,

87. The increasingly important role played by the
Industrial Development Bank in the New Brunswick



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A1753

economy in providing long-term credit to small
and medium-sized business is evident from the
following tables.

TABLE I Long-term credit to small and medium-sized business, 1950-1954						
	1950	1951	1952	1953	1954	Total
1. Commercial banks	100	100	100	100	100	500
2. Industrial banks	100	100	100	100	100	500
3. Finance companies	100	100	100	100	100	500
4. Trust companies	100	100	100	100	100	500
5. Other financial institutions	100	100	100	100	100	500
6. Total	500	500	500	500	500	2500

TABLE II Long-term credit to small and medium-sized business, 1950-1954						
	1950	1951	1952	1953	1954	Total
1. Commercial banks	100	100	100	100	100	500
2. Industrial banks	100	100	100	100	100	500
3. Finance companies	100	100	100	100	100	500
4. Trust companies	100	100	100	100	100	500
5. Other financial institutions	100	100	100	100	100	500
6. Total	500	500	500	500	500	2500



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A1754

TABLE 1

LOANS AUTHORIZED BY THE INDUSTRIAL
DEVELOPMENT BANK

1956 - 1961

NEW BRUNSWICK AND CANADA

(during fiscal years ending September 30)

	<u>Number</u>					
	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
New Brunswick	8	20	24	27	30	61
Annual % Change	-	150.0	20.0	12.5	11.1	103.3
Canada	349	401	571	599	740	1,364
Annual % Change	-	14.9	42.4	4.9	23.5	84.0
	<u>Amount (\$000)</u>					
	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
New Brunswick	1,344	1,236	1,399	765	888	2,711
Annual % Change	-	- 8.0	13.2	- 45.3	16.1	205.3
Canada	39,359	30,111	35,941	30,579	38,576	71,196
Annual % Change	-	- 23.5	19.4	- 14.9	26.2	84.6



LOANS AUTHORIZED BY THE INDUSTRIAL

DEPARTMENT

1955 - 1961

NEW BRUNSWICK AND CANADA

(Amounts in thousands of dollars)

Number

	1955	1956	1957	1958	1959	1960	1961
New Brunswick	8	20	24	27	30	31	31
Annual % Change	-	150.0	50.0	12.5	10.1	102.3	
Canada	349	401	571	559	740	1,064	
Annual % Change	-	14.7	30.5	2.1	27.0	44.0	
Total							
	1955	1956	1957	1958	1959	1960	1961
New Brunswick	1,544	1,536	1,399	765	389	2,717	
Annual % Change	-	- 0.5	12.5	- 45.8	10.1	202.0	
Canada	39,359	30,111	35,991	30,339	39,576	71,799	
Annual % Change	-	- 23.5	19.4	- 14.2	26.2	68.6	



Source: Computed from Industrial Development Bank, Annual Report, 1961

TABLE 2

LOANS AUTHORIZED BY THE INDUSTRIAL
DEVELOPMENT BANK IN NEW BRUNSWICK
AS A PERCENTAGE OF CANADIAN TOTAL

1956 - 1961

(during fiscal years ending September 30)

	<u>Number</u>					
	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
	%	%	%	%	%	%
New Brunswick	2.3	5.0	4.2	4.5	4.1	4.5
Canada	100.0	100.0	100.0	100.0	100.0	100.0

	<u>Amount</u>					
	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
	%	%	%	%	%	%
New Brunswick	3.4	4.1	3.9	2.5	2.3	3.8
Canada	100.0	100.0	100.0	100.0	100.0	100.0

Source: See Table 1

88. Of particular note is the 103% increase in the number of loans in New Brunswick between 1960 and 1961 and and 205% increase in loan value. (See Table 1). Most of this increase took place before the amendments last July to the Industrial Development Bank Act became effective and the outlook for further expansion looks very favourable.

89. Professor Cairncross found that the Industrial Development Bank



LOANS AUTHORIZED BY THE INDUSTRIAL
DEVELOPMENT BANK IN NEW BRUNSWICK
AS A PERCENTAGE OF THE INDUSTRIAL

(During fiscal years ending September 30)

	New Brunswick					
	1950	1951	1952	1953	1954	1955
	%	%	%	%	%	%
New Brunswick	2.3	2.0	2.2	2.2	4.1	4.3
Canada	100.0	100.0	100.0	100.0	100.0	100.0

	New Brunswick					
	1950	1951	1952	1953	1954	1955
	%	%	%	%	%	%
New Brunswick	2.4	4.1	2.9	2.3	2.3	2.8
Canada	100.0	100.0	100.0	100.0	100.0	100.0

Sources: See Table 1

88. Of particular note is the 103% increase in the number of loans in New Brunswick between 1953 and 1954 and a 703% increase in loan value. (See Table 1). Most of this increase took place before the amendment was passed.



1 "may have acted as a safety valve" during the credit
2 squeezes of 1955-57 and 1959-60 and in many cases
3 "took over a customer who would have been likely, in
4 the early fifties, to have obtained a capital loan
5 from his bank". At the same time, he felt that the
6 Industrial Development Bank should do more by way
7 of accepting equities as security for loans. The
8 legislative authority already exists for this and we
9 hope that the statement in the 1961 Annual Report
10 of the Industrial Development Bank that "the Industrial
11 Development Bank might be of increasing use in making
12 it possible to maintain Canadian ownership of family
13 firms" is a sign that the Industrial Development
14 Bank is now prepared to move more in the direction of
15 increased equity financing.

16 90. Furthermore, in past years the Industrial
17 Development Bank, while useful and effective, has
18 been more of a "bank" and less of a "development"
19 agency than we would consider appropriate. Its
20 interest rates have been adjusted upwards in line
21 with national monetary policies of restraint, and we
22 can see no logical justification for this. In past
23 years there have been increasing demands from this part
24 of the country for a monetary policy which would
25 be regionally oriented, both in terms of the cost
26 and availability of funds. We have given these
27 objectives careful consideration, and while we agree
28 wholeheartedly in the objectives themselves, we
29 recognize the technical difficulties inherent in
30 implementation within the framework of our present



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1950s of 1955-57 and 1959-60 and in many cases
"took over a customer who would have been likely, in
the early fifties, to have obtained a capital loan
from his bank". At the same time, he felt that the
Industrial Development Bank should do more to help
of accepting deposits as security for loans. The
legislative authority already exists for this and we
hope that the statement in the 1961 Annual Report
of the Industrial Development Bank that "the Industrial
Development Bank might be of increasing use in making
it possible to maintain Canadian ownership of family
firms" is a sign that the Industrial Development
Bank is now prepared to move more in the direction of

30. Furthermore, in past years the Industrial
Development Bank, while useful and effective, has
been more of a "bank" and less of a "development"
agency than we would consider appropriate. Its
interest rates have been adjusted upwards in line
with rational monetary policies of restraint, and we
can see no logical justification for this. In past
years there have been increasing demands from the part
of the country for a monetary policy which would
be regionally oriented, both in terms of the cost
and availability of funds. We have given these
objectives careful consideration, and while we agree
wholeheartedly in the objectives themselves, we
regret that we are unable to do so at the present
legislation within the framework of our present



1 chartered banking structure.

2 91. It is doubtful whether a distant regional
3 interest rate structure could be developed, within
4 which a regional "central bank" could exert influence
5 in a direction contrary to that required in central
6 Canada. To achieve such a situation might well
7 require the development of a highly complex regional
8 money market almost fully insulated from the rest of
9 Canada. This would be at best extremely difficult
10 and at worst, impossible.

11 92. However, we see no great necessity to reduce
12 the cost or increase the availability of funds to all
13 classes of borrowers in the region; those in a position
14 requiring additional and/or cheaper capital in order
15 to increase the productive capacity of the economy
16 are those needing assistance.

17 93. Notwithstanding the possibilities of such
18 policies being developed by the central bank or the
19 Federal Government, it is our view that the operations
20 of the Industrial Development Bank could be altered
21 to serve this purpose. The Industrial Development
22 Bank now has the facilities, and by separating it
23 from the control of the Bank of Canada, and/or by regroup-
24 ing its regional offices into autonomous areas for
25 development, would make possible:

26 (1) regional interest rate differentials
27 and levels insulated from the effects of
28 national monetary policies.

29 (2) the availability of funds for regional
30 development needs which would not be subject



interest rate structure could be developed within
which a regional "central bank" could have influence

Canada. To achieve such a situation might well
require the development of a highly complex system
money market almost fully insulated from the rest of
Canada. This would be at best extremely difficult
and at worst, impossible.

However, we see no great necessity to reduce
the cost or increase the availability of funds to all
classes of borrowers in the region, those in a position
requiring additional and/or cheaper capital in order
to increase the productive capacity of the economy.

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policies being developed by the central bank or the
Federal Government, it is our view that the operations
of the Industrial Development Bank could be altered
to serve this purpose. The Industrial Development
Bank now has the facilities, and by separating it
from the control of the Bank of Canada, and by making
ing its regional offices into autonomous units for
development, would make possible.

- (1) regional interest rate differentials
and levels regulated from the effects of
- (2) the availability of funds to regional
development needs which would not be covered



1 to inter-regional capital flows.

2 (3) greater co-operation with Provincial
3 Government development agencies, both in
4 assessing development potentials and
5 applicants for credit, and in the joint
6 sharing of the financial risks inherent
7 in some large government assisted industrial
8 projects.

9 94. The basis for these recommendations lies in the
10 belief that businesses in the province, and especially
11 the smaller ones, have encountered difficulties in
12 obtaining capital for both expansion and new ventures.
13 As a result of the slower pace of economic activity
14 and concentration of the decision-making processes
15 in the head office of the financial institutions, we
16 have the impression that funds are not quite so
17 available as in some other parts of Canada.

18 95. Associated with this is the question of
19 whether monetary policies of restraint are felt with
20 more force in New Brunswick than in other parts of
21 the country. There are no bodies of statistical
22 data on which to base any answer to this question --
23 negative or positive. There are only judgments.
24 However, there are a fair number of reputable
25 economists who judge the answer to be yes. This was
26 a problem particularly emphasized to Professor
27 Cairncross before he began his study. As his report
28 indicates, he did not find such differential effects
29 on a large scale, but he did find instances in which
30 production had been restricted because of the impact

in time

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96. However, there are a fair number of requests

known to me, and the answer to be yes. This was

a problem particularly emphasized by Professor

Guimondas before he began his study. As his report

indicated, he did not find such differential treatment

on a large scale, but he did find instances in which

production had been restricted because of too many



1 of monetary restraint. As well, his final conclusion
2 was that no policy of monetary restraint could be
3 judged as appropriate for this region. If this is the
4 case, then we believe we are justified in believing
5 such policies to bear more heavily here than elsewhere.

6 96. Aside from the absolute effect of such
7 policies on the region, there are also important
8 questions of the timing of national policy. Normally,
9 the Provincial economy lags behind the national economy
10 during periods of recovery from periods of recession.
11 In many cases, since monetary policies are geared
12 to the aggregate statistics, a policy of credit
13 restraint designed to promote more orderly growth
14 nationally, is felt here at a very early stage in
15 the recovery phase of the business cycle. The result
16 is that the recovery is impeded, with both its rate
17 slowed down and its length cut short.

18 97. As we have already indicated, there is a
19 great lack of available information on regional
20 capital flows, but we suggest that the operations
21 of the banking system may be inappropriate to the capital
22 needs of industry in another way. In our view it is
23 quite possible that in periods when loan funds
24 are in great demand nationally, available funds are
25 siphoned off from this part of Canada to meet
26 demands in other areas. In this regard, we have not
27 been able to develop data on the regional operations
28 of the chartered banks, and strongly recommend that
29 the Commission investigate this possibility.

30 98. On the basis of these judgments we have





1 concluded that under ordinary circumstances capital
2 is not as readily available from the markets as it
3 should be, and that in periods of national credit
4 restraint this situation becomes more aggravated.
5 As a result, the Province has had to enter the
6 industrial lending field, unlike such provinces as
7 Ontario, Quebec, Alberta and British Columbia. Even
8 with some capital available under Federal legislation,
9 there is still the deficiency that in many cases the
10 maximum amount available in small business loans is
11 frequently too little. Accordingly, we urge the
12 Commission to give consideration to these deficiencies
13 in its review of existing legislation which makes
14 capital available to industry.

15 99. The flow of mortgage funds in New Brunswick
16 has been determined in large extent by national monetary
17 policy operating through the Central Mortgage and
18 Housing Corporation. As with monetary policy as a
19 whole, there is little evidence that C.M.H.C. has
20 supplied mortgage funds on a discriminatory basis
21 as between different regions. This is both possible,
22 however, and highly desirable in view of the importance
23 of residential construction to the economy. We suggest
24 that mortgage funds be made available on easier terms
25 in economically retarded areas when more arduous terms
26 are necessary in the economy as a whole. Expressed
27 in another manner, we are advocating that in areas
28 of chronic under-utilization of resources, effective
29 demand should determine the level of housing
30 construction, not the need for credit restraint at the



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A1761

1 national level.

2 100. In the field of agriculture, there are in
3 existence three sources, aside from the banks and
4 private lenders, of both short and long-term capital.
5 The Canadian Farm Credit Corporation, the New Brunswick
6 Farm Settlement Board, and loans under the Farm Loans
7 Improvement Act are all available sources of capital
8 for farmers operating, or wishing to operate, units
9 of economic size and potential. On this basis, it
10 is likely that the necessary institutional framework
11 is available to meet the demands of the industry.

12 101. There have, however, been cases in which
13 administrative rigidity has been a factor in restricting
14 the availability of funds to many of the smaller types
15 of farms. Although this situation has improved
16 considerably, it is felt that every effort should be
17 made to achieve greater flexibility in administration --
18 a type of flexibility which would permit the varying
19 requirements of New Brunswick agriculture to be more
20 fully met. Furthermore, it is suggested that the terms
21 of repayment of loans under the Farm Improvement
22 Loans Act is entirely too short in many cases. Possibly
23 for such items as fertilizer, seed, feed, etc., an
24 extension of time would be undesirable, but for such
25 projects as building improvements, machinery purchases,
26 herd building and similar long-term programmes, a
27 longer period of repayment is necessary. We
28 therefore recommend that the Commission study the
29 possibility of such adjustments.



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In the field of agriculture, there are in existence three sources, aside from the banks and private lenders, of both short and long-term capital. The Canadian Farm Credit Corporation, the New Brunswick Farm Development Board, and loans under the Farm Loans Improvement Act are all available sources of capital for farmers operating, or wishing to operate, units of economic size and potential. On this basis, it is likely that the necessary institutional framework is available to meet the demands of the industry. There have, however, been cases in which administrative rigidity has been a factor in restricting the availability of funds to many of the smaller types of farms. Although this situation has improved considerably, it is felt that every effort should be made to achieve greater flexibility in administration - a type of flexibility which would permit the varying requirements of New Brunswick agriculture to be more fully met. Furthermore, it is suggested that the Loans Act is entirely too short in many cases. Possibly for such items as fertilizer, seed, feed, etc., an extension of time would be undesirable, but for such projects as building improvements, machinery purchases, herd building and similar long-term programmes, a longer period of repayment is necessary. We therefore recommend that the Commission study the possibility of such adjustments.



1 Longer Term Policies

2 102. In the previous section emphasis has been
3 placed on the importance of developing selective
4 monetary controls, within a co-ordinated framework of
5 fiscal and monetary policy, as a means of increasing
6 the rate of growth of the New Brunswick economy.
7 However, it is doubtful that monetary policies, however
8 selective in nature, will play more than a minor
9 role in the policy structure required to bring about
10 more rapid development. Essentially, we see monetary
11 policy as playing a stabilizing role in the short-
12 term, while providing long-term incentive for the
13 creation of new physical assets. As such, monetary
14 policy becomes, in the long-term, a second line of
15 action, after fiscal policy.

16 103. However, this raises the question as to
17 what is the appropriate mix between fiscal policy,
18 monetary policy and administrative controls in the
19 exercise of government influence on levels of demand.
20 Obviously, there is no proper "package" which will be
21 appropriate for all circumstances, but there are
22 questions of emphasis which can be answered. In the
23 first place, it appears that in recent years there
24 has been all too much reliance on the use of monetary
25 instruments in response to cyclical movements in
26 the Canadian economy. This is understandable for
27 monetary policies have the advantages of being both
28 anonymous and acceptable, with their effects not
29 really being attributable to anything more precise
30 than the "market". In addition, such policies enjoy



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monetary policies have the advantages of being both



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A1763

1 great flexibility, and have the ultimate effect of
2 forcefully making known to the business community,
3 what their reaction should be to the current phase
4 of the business cycle.
5 104. In the face of such attractive features,
6 it is extremely easy for the fiscal machinery to
7 rest in passive tranquility during four year
8 periods of gestation between elections. However, the
9 very advantages mentioned above have inherent
10 weaknesses which, in our view, have tended to greatly
11 limit the effectiveness of monetary policy in the last
12 decade. Aside from more or less structural weakness
13 which are discussed later, the lack of selectivity,
14 the reliance on manipulation of the money supply
15 and interest rates and the sheltered nature of great
16 sectors of the economy all point to the ineffectiveness
17 of monetary policy in recent years.

18 105. In our examination of the performance of
19 monetary policy in the past decade we have been
20 unable to detect that such policies were in any way
21 decisive to the turn of economic events. The
22 inexorable rise in price levels continued through
23 periods of both monetary restriction and expansion,
24 and movements in interest rates seem unrelated to
25 levels of investment. With the deterioration of the
26 value of money in the post-war period, it is under-
27 standable that businessmen are not greatly influenced
28 by marginal movements in interest rates. This is
29 particularly so when the high levels of corporate
30 taxation are considered at the same time.



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A1764

1 106. It is therefore our contention that fiscal
2 policy must be given greater emphasis in the objectives
3 of full employment, economic growth and price stability.
4 This is true nationally, but particularly so in the
5 case of New Brunswick and the entire Atlantic Region.
6 In this respect, the lag in development in this
7 part of the country can be very closely associated
8 with the failure of private investment to expand
9 at a sufficiently rapid pace. Not only in the per
10 capita volume of new investment in the Province
11 substantially below the national average, but
12 differences in its distribution and growth rate
13 have contributed to its failure to stimulate a faster
14 pace of economic development.

15 107. Generally, in New Brunswick public investment
16 bulks larger in the total than is the case nationally,
17 and is becoming more and more important. This is not
18 so much a reflection of an abnormally high level
19 of public investment, but of the relatively low level
20 of investment in the private sector. The growth
21 rates of various types of investment in the past decade
22 indicates that this imbalance between public and private
23 investment is becoming greater.

24 108. What is therefore required are policies
25 to stimulate the rate of private capital formation
26 in the area. This will necessitate the large-scale
27 allocation of funds, through Federal fiscal policies,
28 to provide inducements to industrial location and
29 incentives to expand production. In this respect,
30 we have already urged the Federal Government to



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107. Generally, in New Brunswick public investment is larger in the total than in the case nationally, and is becoming more and more important. This is not so much a reflection of an abnormally high level of public investment, but of the relatively low level of investment in the private sector. The growth rates of various types of investment in the past decade indicated that this imbalance between public and private investment is becoming greater.

108. Part of this imbalance is due to the fact that the rate of private capital formation in the area is still considerably below the national average. It is still necessary for the Government to provide incentives to stimulate private investment to have already urged the Federal Government to



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A1765

1 establish two capital funds for such purposes --
2 funds to be operated in conjunction with the provinces.
3 109. We are not suggesting that such a policy be
4 applied only to the Province of New Brunswick, but
5 rather that it should be a national development
6 policy, through which retarded or underdeveloped
7 areas would be given special treatment to induce
8 faster growth. The objective of such a policy is to
9 provide a more balanced type of economic growth
10 in Canada than has been our experience. In this
11 regard, no reasonable person can expect all parts
12 of a country as large and diverse as Canada to grow
13 at similar rates. Over the long-term the process
14 of economic growth is understandably uneven, but
15 because of natural factors and because of the effects
16 of short-term policies. At various points in time
17 one area will be developing rapidly, while others
18 languish in stagnation, only to see the reverse
19 situation develop a generation later.

20 110. To some extent this has happened in Canada --
21 different regions have expanded at different times --
22 but throughout all this one fact has always been
23 apparent. The Atlantic region has for the greater
24 part of the history of this country lagged a consider-
25 able distance behind the rest of the nation. It is
26 certainly true that the Atlantic region has itself
27 expanded, and arguments are expressed that as long as
28 the nation expands the Atlantic region will share
29 in this growth. History indicates that this "cult of
30 the Gross National Product" would provide a sort of



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A1766

1 "iron law" whereby this region must always be
2 substantially poorer than the rest of the country.
3 We have been unable to accept such a paradoxical
4 situation, and believe the proposition of balanced
5 growth to be an essential ingredient in the develop-
6 ment of Canadian nationhood.

7
8 Financial Institutions

9 111. The MacMillan Commission of the 1930's placed
10 great emphasis on the structure of Canadian banking
11 and upon the questions of stability associated with
12 it. However appropriate this may have been for that
13 particular time, the institutions existing at that
14 time and arising from the enquiry itself do not
15 necessarily operate in the same manner today. A wide
16 variety of changes both in the institutions them-
17 selves and in their functions, have provided, in our
18 view, a new basis upon which the financial system
19 operates.

20 112. Obviously, the most important of such
21 changes, both in magnitude and significance, has been
22 the vast increase in that portion of the economy
23 controlled by government. Since this sector is by
24 and large free from the influence of monetary action,
25 and directly affected by budgetary policy, there
26 are obvious implications for the financial policy
27 mix. When the spending, particularly of a capital
28 nature, of publicly controlled corporations is
29 added to government, the result is that the most
30 important component of aggregate demand -- investment --



...the ...
...the ...
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AL767

1 is directly responsible to fiscal policy and to fiscal
2 policy alone. Other aspects of this changing
3 environment include the rapid increases in corporate
4 taxation, the substantial build-up of depreciation
5 reserves and other sources of internal financing,
6 the increasingly large size of the public debt,
7 particularly short-term, and the large increases
8 in the liquidity of non-bank institutions. All of
9 these developments have transformed the nature of
10 capital markets and the nature of the institutions
11 that operate therein.

12 113. In our view, one of the major implications of
13 these trends is for changes in the structure and
14 operations of the Bank of Canada. These developments
15 have limited the ability of the Bank of Canada to
16 function in a manner consistent with its objectives.
17 The compelling question is whether the objectives
18 should be altered or the bank given broader powers.
19 It is our judgment that the answer to this lies not
20 entirely in any restructuring of the Bank itself,
21 but rather in a remoulding of the entire apparatus
22 of economic policy.

23 114. Those objectives of the Bank of Canada
24 which appear so formidably at the beginning of its
25 annual report are also the objectives of fiscal
26 policy, and the Bank and the Department of Finance
27 must together have sufficient authority to effectively
28 pursue them. However, this authority, although absolute
29 in neither case, already exists for the most part.
30 What is then required are changes in the manner in



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A1768

1 which they operate together.

2 115. Some of these changes have already been
3 mentioned -- increased use of fiscal policy and more
4 selective use of the instruments of credit control.

5 In addition, we have also suggested a technique
6 whereby fiscal and monetary policies could be more closely
7 co-ordinated. This is a particularly important
8 issue since it entails questions of responsibility.

9 To reiterate, the ultimate responsibility for both
10 fiscal and monetary policy must rest with the Govern-
11 ment of Canada through its Minister of Finance.

12 However, this does not mean that the central bank
13 must become a mere branch of the Department of
14 Finance, and the co-ordinating machinery we have
15 suggested would assist in avoiding this.

16 116. There have been recently questions raised
17 regarding possible conflict between the Bank's
18 responsibilities as central banker and those as
19 fiscal agent to the Government of Canada. It has
20 been variously suggested that the Bank should cease
21 to act as fiscal agent for the Government, or that
22 the Bank should use its authority to act as fiscal
23 agent for the provinces. This latter suggestion
24 has theoretical merits, but we find it difficult
25 to believe that it would be practical or in any way
26 effective. In addition, recommendations made earlier
27 calling for a closer advisory relationship between
28 the Bank and the provinces and for certain types
29 of Federal financing assistance when required would
30 obviate the necessity for making such a move.



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to act as fiscal agent for the Government, or that

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of federal financing assistance when required would

state the necessity for making such a move.



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A1769

1 117. The question of the Bank ceasing to act as
2 fiscal agent to the Federal Government is more
3 complex. Presumably, a fiscal agent has certain
4 responsibilities in the area of debt management,
5 and if it were possible to separate such responsibilities
6 from monetary policy, we would be strong proponents of
7 just such a separation. However, we believe this
8 to be impossible since debt management decisions,
9 such as that to keep to the short-term market
10 or one such as the Conversion Loan, affect the money
11 market just as surely as changes in liquidity
12 ratios or in open market operations. Similarly,
13 monetary policy must not, as it apparently has been
14 in the past, be developed on the basis of criteria
15 different than those used in the formulation of
16 budgetary policy, or the effectiveness of both would
17 be destroyed. There have been suggestions that only
18 a perfectly independent central bank can be expected
19 to protect the country against the political
20 indiscretions of the Minister of Finance. However
21 attractive such suggestions might be, it is
22 difficult to find them acceptable in the face of the
23 fact that the Minister of Finance is the architect
24 of the budget, and apparently is trusted as such
25 by our society.

26 118. Given this combination of responsibilities
27 there are arguments which we urge the Commission
28 to examine for the broadening of the area of impact
29 of monetary policy in order to reflect the changing
30 environment. Certainly, some attempt must be made



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Given this condition of responsibilities there are arguments which we and the Commission to examine for the presiding of the area of interest of monetary policy in order to reflect the changing



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A1770

1 to at least have the effects of monetary policy
2 felt by the consumer finance companies and other
3 non-bank holders of liquid assets. In addition, the
4 impact of the concentration of large holdings of bonds
5 in the hands of a few institutions must be studied,
6 if monetary policy is to become more effective.
7 119. If inflationary forces are to be
8 effectively curtailed, these areas, together with
9 the concentrations of economic power in both business
10 and labour, must be brought within the scope of
11 Federal policy. Whether this policy is monetary,
12 fiscal or administrative controls is really unimportant
13 if all three are fully co-ordinated and integrated.

14
15 Regulations Governing the Issue and Sale of Securities

16 120. It is our understanding that a great deal
17 of material on this subject has already been submitted
18 to this Commission, but a few brief comments based
19 on our experience might well be appropriate.
20 Securities legislation has been left to the provinces
21 in Canada, and it is generally agreed that "the
22 subject of Canadian securities regulation is
23 unnecessarily complicated", that there exists a serious
24 lack of uniformity in the laws of the various
25 provinces; that provincial administrative personnel
26 in the field are too few and often ineffective; that
27 legal deterrents to securities fraud are too weak; and
28 that provincial securities administrators are "almost
29 completely impotent beyond" their provincial
30 boundaries.



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non-convertibility of foreign assets. In addition, the
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A1771

1 121. In New Brunswick, we have had a Security
2 Frauds Prevention Act with an Administrator for a number
3 of years, but the widely publicized stock fraud
4 perpetrated in this province between 1958 and 1960
5 pointed to serious deficiencies in New Brunswick
6 legislation, and more particularly, in the enforcement
7 of this legislation. The Report of the investigator
8 into these activities suggested that existing
9 legislation be reviewed and revised, that securities
10 regulation be divorced from any possible political
11 considerations, and that closer co-operation be
12 established between the various provincial regulatory
13 bodies.

14 122. The question is whether inter-provincial
15 co-operation can effectively control such fraudulent
16 practices, or if the establishment of a Federal
17 regulatory agency would not be more appropriate. We
18 are inclined to support the concept of a Federal
19 regulatory body in the field of the issuance and
20 sale of securities for a number of reasons.

21 123. First, we doubt that, given the diversity
22 of interests, inter-provincial co-operation can ever
23 be developed to the point where it would be
24 effective in a difficult and complicated area such
25 as this. Second, the interest in eliminating such
26 frauds is national in scope, since the entire nation
27 benefits from the flow of risk capital into the country.
28 A fraudulent practice in one province could, and
29 probably does, damage investor confidence generally,
30 and this affects the flow such funds into other



121.

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Florida Prevention Act with an Administrator for a number of years, but the widely published stock fraud perpetrated in this province between 1958 and 1960 pointed to serious delinquencies in New Brunswick legislation, and more particularly, in the enforcement of this legislation. The Report of the Investigator into these activities suggested that existing legislation be reviewed and revised, that securities regulation be divorced from any possible political considerations, and that closer co-operation be established between the various provincial regulatory bodies.

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The question is whether inter-provincial co-operation can effectively control such fraudulent practices, or if the establishment of a Federal regulatory agency would not be more appropriate. We are inclined to support the concept of a Federal regulatory body in the field of the securities and sale of securities for a number of reasons. First, we think that, given the diversity of interests, inter-provincial co-operation can never be developed to the point where it would be effective in a sufficient and consistent manner such as this. Second, the interests of minority stock owners is national in scope, and the entire nation benefits from the flow of risk capital.

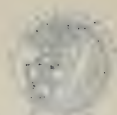


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A1772

1 provinces, no matter how effective their legislation
2 or administration. Third, to establish a really
3 effective securities agency in each provincial
4 capital would involve high costs and duplication
5 which could be avoided or reduced by the establishment
6 of a single Federal agency.





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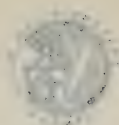
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A P P E N D I X A

STATISTICAL APPENDIX



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STATISTICAL APPENDIX

STATISTICAL APPENDIX



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Appendix A

1. Debentures Issued 1 April 52 - 1 April 62

Province of New Brunswick

Funded Debt

Short Term (1 - 3 yrs)

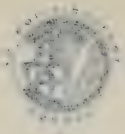
Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 Feb 54	7,000,000	3 3/4	15 Feb 56	Cdn pay 5,900,000
2 Feb 59	1,500,000	2 1/2	2 Feb 61	do -
17 Nov 59	2,000,000	2 1/4	17 Feb 60	do -
2 Jan 60	5,580,000	2	2 Jan 62	do 5,580,000
	<u>16,080,000</u>			<u>11,480,000</u>

Medium Term (4 - 8 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 March 55	6,849,000	3	15 Mar 59	Cdn pay 5,782,000
1 March 57	1,306,500	5	1 Mar 62	Cdn pay 1,306,500
1 October 57	1,591,500	5	1 Oct 62	Cdn pay -
15 June 58	5,000,000	4	15 June 63	Cdn pay -
15 Feb 61	2,000,000	5 1/4	15 Feb 66	Cdn pay -
15 Dec 61	1,500,000	4 3/4	15 Dec 66	Cdn pay -
1 April 62	3,000,000	4 3/4	1 April 67	Cdn pay -
	<u>\$ 21,247,000</u>			<u>7,088,500</u>

Long Term (9 years +)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
1 April 52	10,000,000	4 1/2	1 Apr 72	U.S. pay 6,260,000
2 Feb 53	7,500,000	4 1/2	2 Feb 65	Cdn pay 2,800,000



Appendix A

1. Debentures issued 1 April 52 - 1 April 62

Province of New Brunswick

Interest Paid

Short Term (1 - 3 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N.B.E.P.C.
15 Feb 54	7,000,000	3 3/4	15 Feb 56	Cdn pay 5,900,000
2 Feb 59	1,500,000	2 1/2	2 Feb 61	-
17 Nov 59	2,000,000	2 1/4	17 Feb 60	-
2 Jan 60	5,580,000	2	2 Jan 62	5,580,000
	<u>16,080,000</u>			<u>11,480,000</u>

Medium Term (4 - 8 yrs)

Date of Issue	Am't of Issue	%	Maturity	Am't for N.B.E.P.C.
15 March 55	6,840,000	3	15 Mar 59	Cdn pay 5,785,000
1 March 57	1,306,500	5	1 Mar 62	Cdn pay 1,306,500
1 October 57	1,591,500	5	1 Oct 62	Cdn pay -
15 June 58	5,000,000	4	15 June 63	Cdn pay -
15 Feb 61	5,000,000	5 1/4	15 Feb 66	Cdn pay -
15 Dec 61	1,500,000	4 3/4	15 Dec 66	Cdn pay -
1 April 62	3,000,000	4 3/4	1 April 67	Cdn pay -
	<u>\$ 21,247,000</u>			<u>7,087,500</u>

Long Term (9 years +)

Date of Issue	Am't of Issue	%	Maturity	Am't for N.B.E.P.C.
1 April 52	10,000,000	4 1/2	1 Apr 75	U.S. pay 6,560,000
2 Feb 53	7,500,000	4 1/2	2 Feb 62	Cdn pay 5,800,000



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A1775

Long Term (9 years +) (Continued)

Date of Issue	Am't of Issue	%	Maturity	Am't for N. B. E. P. C.
15 July 53	7,500,000	4 1/2	15 July 69 Cdn pay	1,000,000
15 Feb 54	8,500,000	4 1/4	15 Feb 69 Cdn pay	3,612,000
15 Apr 54	9,232,000	3 3/4	15 Apr 70 Cdn pay	2,676,000
15 July 54	9,200,000	3 1/2	15 July 72 Cdn pay	5,850,000
1 Feb 55	11,500,000	3 1/4	1 Feb 70 Cdn pay	3,988,000
15 Oct 55	10,000,000	3 1/2	15 Oct 75 Cdn pay	3,505,000
1 Feb 56	5,000,000	3 7/8	1 Feb 76 U.S. pay	5,000,000
1 Apr 56	7,400,000	3 1/2	1 Apr 76 Cdn pay	5,300,000
15 Oct 56	6,000,000	4 1/2	15 Oct 71 Cdn pay	2,200,000
1 Dec 56	6,500,000	5	1 Dec 74 Cdn pay	3,000,000
1 Mar 57	6,193,500	5	1 Mar 75 Cdn pay	4,893,500
1 Oct 57	4,408,500	5	1 Oct 77 Cdn pay	200,000
2 Feb 59	5,000,000	5	2 Feb 79 Cdn pay	-
1 July 59	10,000,000	5 1/4	1 July 79 U.S. pay	-
1 Feb 60	15,000,000	5 3/8	1 Feb 85 U.S. pay	15,000,000
15 Feb 61	8,000,000	5 3/4	15 Feb 86 Cdn pay	-
15 May 61	10,000,000	5 3/4	15 May 81 Cdn pay	-
15 Dec 61	6,000,000	5 1/4	15 Dec 86 Cdn pay	-
	<u>\$ 162,934,000</u>			<u>\$ 65,284,500</u>

Province of New Brunswick

Treasury Bill

for purposes of financing Beechwood Power Project

8 April 1958 \$ 29,500,000 3 7/8 8 April 1966 Cdn. pay

X payable in eight equal annual installments
1959 - 1966 inclusive

Swiss Loan

1 November 1959 5% S.W. Frs. 20,000,000 due 1 November 1961



11110

Long Term (2 years +)	Date of Issue	Amt of Issue	Maturity	Amt for	
5	15 July 53	7,500,000	4 1/2	15 July 60 Cdn pay	1,000,000
6	15 Feb 54	8,500,000	4 1/2	15 Feb 60 Cdn pay	3,615,000
7	15 Apr 54	9,335,000	3 3/4	15 Apr 70 Cdn pay	3,676,000
8	15 July 54	9,500,000	3 1/2	15 July 75 Cdn pay	5,850,000
9	1 Feb 55	11,500,000	3 1/2	1 Feb 70 Cdn pay	3,988,000
10	15 Oct 55	10,000,000	3 1/2	15 Oct 75 Cdn pay	3,505,000
11	1 Feb 56	5,000,000	3 3/8	1 Feb 76 U.S. pay	5,000,000
11	1 Apr 56	7,400,000	3 1/2	1 Apr 76 Cdn pay	5,300,000
12	15 Oct 56	6,000,000	4 1/2	15 Oct 71 Cdn pay	5,500,000
13	1 Dec 56	6,500,000	5	1 Dec 74 Cdn pay	3,000,000
14	1 Mar 57	6,193,500	5	1 Mar 75 Cdn pay	4,693,500
15	1 Oct 57	4,468,500	5	1 Oct 77 Cdn pay	500,000
16	2 Feb 59	5,000,000	5	2 Feb 79 Cdn pay	-
17	1 July 59	10,000,000	5 1/2	1 July 79 U.S. pay	-
18	1 Feb 60	15,000,000	5 3/8	1 Feb 85 U.S. pay 15,000,000	-
19	15 Feb 61	8,000,000	5 3/4	15 Feb 86 Cdn pay	-
20	15 May 61	10,000,000	5 3/4	15 May 81 Cdn pay	-
21	15 Dec 61	6,000,000	5 1/4	15 Dec 86 Cdn pay	-
22		<u>\$ 102,334,000</u>			<u>\$ 65,284,500</u>

Province of New Brunswick

Treasury Bill

for purposes of financing Greenwood Power Project

8 April 1958 \$ 29,500,000 3 7/8 8 April 1966 Cdn. pay

X payable in equal annuities
1957 - 1966 inclusive

1 November 1957 5% S.W. Exch. 30,000,000 due 1 November 1961



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Toronto, Ontario

A1776

N. B. E. P. C. began issuing its own debentures in

January 1961. These have been as follows:

2 Jan 61	15,000,000	5 1/4	2 Jan 86 U.S. Pay	\$15,000,000
1 July 61	5,000,000	5 3/4	1 July 91 Cdn Pay	5,000,000
1 Nov 61	6,150,000	5 1/4	1 Nov 86 U.S. Pay	6,150,000
1 Nov 61	3,850,000	4 3/4	1 Nov 66 U.S. Pay	3,850,000
15 March 62	2,650,000	5 1/2	15 Mar 87 Cdn Pay	2,650,000
15 March 62	7,350,000	5 1/2	15 Mar 92 Cdn Pay	7,350,000
<u>\$ 40,000,000</u>				<u>\$ 40,000,000</u>



Nethercut & Young

Toronto, Ontario

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Description	Average Population 56 - 58 (1)	Net General Provincial And Municipal Revenue (000)		Total (5)	Average (6)	Revenue Per Capita (7)	Ave. Per Capita Personal Income (8)	Net Per Capita Personal Income (9)	Index (10)
		1956 (2)	1957 (3)						
Newfoundland (Prov.) (N un.)		18,213	18,740	19,941					
		3,605	3,773	3,882					
(Total)	426,000	21,818	22,513	23,823	22,718	\$ 53.32	\$ 770	\$ 717	6.92%
Prince Edward Island		3,787	4,581	5,062					
		2,092	2,276	2,346					
	99,000	5,879	6,857	7,408	6,714	67.81	802	734	8.45%
Nova Scotia		31,627	34,389	37,231					
		28,672	31,926	34,083					
	702,000	60,299	66,315	71,314	65,976	93.98	1,023	929	9.18%
New Brunswick		33,333	34,385	35,795					
		22,819	26,187	28,706					
	566,000	56,152	60,572	64,501	60,408	106.73	914	807	11.67%
Quebec		271,505 (a)	293,650 (a)	314,585 (a)					
		267,511	293,378	322,060					
	4,757,000	539,016	587,028	636,645	587,429	123.48	1,199	1,076	10.29%
		257,655 (a)	313,946 (a)	338,947 (a)					
		434,265	491,581	532,959					
	5,610,000	691,920	805,527	871,906	789,784	140.78	1,663	1,522	8.46%
Manitoba		31,137	34,728	37,187					
		58,997	62,510	65,318					
	860,000	90,134	97,238	102,505	96,625	112.35	1,365	1,253	8.23%
		60,004 (b)	64,347 (b)	70,489 (b)					
		71,360	77,606	83,116					
	883,000	131,364	141,953	153,605	142,307	161.16	1,266	1,105	12.73%

(continued)



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A1778

(continued) 2. INCIDENCE OF TAXATION INDEX

Description	Average Population 56 - 58 (1)	Net General Provincial And Municipal Revenue (000)		1958 (4)	Total (5)	Average (6)	Revenue Per Capita (7)	Ave. Per Capita Personal Income (8)	Net Per Capita Personal Income (9)	Index (10)
		1956 (2)	1957 (3)							
Alberta		59,339	66,266	67,219						
		87,068	101,151	111,735						
	1,161,000	146,407	167,417	178,954	492,778	164,259	\$ 141.49	\$ 1,476	\$ 1,335	7.58%
British Columbia		168,453	178,088	183,401						
		90,922	106,830	124,962						
	1,477,000	259,375	284,918	308,363	852,656	284,218	192.43	1,686	1,494	11.41%
ALL CANADA	16,573,000				6,261,326	2,087,108	\$ 125.93	\$ 1,403	\$ 1,277	8.97%



INCIDENCE OF TAXATION INDEX

- (1) Based on D. B. S. 13 - 201, 1960, Appendix, Table 1.
Three year average of 1956, 1957, 1958.

- (2) (3) (4) Based on D. B. S. 68 - 502, 1956 - 1960.
Provincial Revenues from Part I, Section III. Total provincial
revenues excluding inter-government transfers, Natural Resource
revenue, Income Taxes on Corporations and Individuals.
(a) Also excluding Succession duties.
(b) Also excluding "Other Taxes" as principally
composed of hospital insurance premiums.

Municipal Revenues from Part I, Section IV. Total municipal
revenues excluding Provincial Government subsidies and grants
in lieu of taxes.

- 8) Based on D. B. S. 13 - 201, 1960, Table 29.



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A1780

Submission

to the

Royal Commission on Banking and Finance

by the

Atlantic Provinces Economic Council

Halifax, N.S.,
and
Fredericton, N.B..

March, 1962.



Submission

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Halifax, N.S.,

and

St. John's, Nfld.

March, 1962.



1 Submission to the Royal Commission on Banking
2 and Finance by the Atlantic Provinces Economic
3 Council.

4 Summary

- 5 1. In view of the fact that the Royal Commission
6 on Banking and Finance will receive numerous
7 valuable submissions relating to the purely
8 national implications of the problems before
9 it, and in view of the primary interest of
10 the Atlantic Provinces Economic Council
11 in economic development in the Atlantic
12 Region, this submission is chiefly con-
13 cerned with the regional implications of
14 the Royal Commission's inquiry.
- 15 2. There is a substantial lag in the develop-
16 ment of the economy of the Atlantic Pro-
17 vinces. Low per capita income, high rates
18 of unemployment, pronounced seasonal unem-
19 ployment and underemployment in comparison
20 with Canada as a whole are symptoms of the
21 relatively slow rate of economic growth.
22 The relatively slow rate of growth is,
23 in turn, related to a relatively slow rate
24 of capital formation.
- 25 3. Potential output cannot be realized unless
26 aggregate demand for goods and services in-
27 creases at a rate equal to the growth of
28 potential output. The flow of funds into
29 investment will be influenced by, and in
30 turn will influence, aggregate demand.



Submission to the Royal Commission on Banking
and Finance by the Atlantic Provinces Economic
Council.

Summary

In view of the fact that the Royal Commission on Banking and Finance will receive numerous valuable submissions relating to the purely national implications of the problems before it, and in view of the primary interest of the Atlantic Provinces Economic Council in economic development in the Atlantic Region, this submission is chiefly concerned with the regional implications of the Royal Commission's inquiry.

There is a substantial lag in the development of the economy of the Atlantic Provinces. Low per capita income, high rates of unemployment, pronounced seasonal unemployment and underemployment in comparison with Canada as a whole are symptoms of the relatively slow rate of economic growth.

The relatively slow rate of growth is, in turn, related to a relatively slow rate of capital formation.

Potential output cannot be realized unless aggregate demand for goods and services increases at a rate equal to the growth of potential output. The flow of funds into investment will be influenced by, and in turn will influence, aggregate demand.



1 Even in times of high aggregate demand in
2 Canada, when virtually full employment is
3 realized, there is a lag in the Atlantic
4 Region. When there is a drop in aggregate
5 demand so that unemployment rises in Canada,
6 the situation is reflected in the Region
7 and unemployment rates rise there.

- 8 4. Since the lag in the Atlantic Provinces
9 is related to lower levels of investment,
10 there is a definite need to bring about a
11 more favourable balance in the investment
12 level between the Region and the country as
13 a whole. We contend that the flow of funds
14 into regional investment will be encouraged
15 in the long-run through the spending of
16 substantial sums by the Federal Government
17 in a relatively short period to improve
18 the basic services required by industry,
19 and by generous assistance to the establish-
20 ment of firms which will have a consider-
21 able direct and indirect encouragement and
22 impact for further investment. The first
23 could be provided by an agency similar to
24 the capital projects commission as suggested
25 by the Royal Commission on Canada's Economic
26 Prospects, the second by a special capital
27 fund for the purpose. These are our first
28 two recommendations.
- 29 5. There are several measures which can be
30 implemented to influence the course of



Even in times of high aggregate demand in Canada, when virtually full employment is realized, there is a lag in the Atlantic Region. When there is a drop in aggregate demand so that unemployment rises in Canada, the situation is reflected in the Region and unemployment rates rise there.

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There are several measures which can be implemented to influence the course of



1 demand, investment, employment and growth.
2 Some of these act through their effect on
3 aggregate demand, others are more selective
4 in their impact. We suggest that no one
5 policy can by itself have the desired effect.
6 It is, therefore, necessary to think in
7 terms of a combination of such policies to
8 direct the course of the economy. For
9 example, monetary policy should ensure that
10 the rate of growth in the money supply is
11 compatible with the rate of growth of real
12 output at high employment and reasonably
13 stable prices; the tax structure should be
14 designed to provide maximum levels of
15 employment, containing elements of
16 selection and discrimination if it is de-
17 sirable to influence in a particular way
18 some aspect of industrial regional or
19 national development; and government ex-
20 penditures should also have as one of their
21 objects the maintenance of a high level of
22 demand and employment. Our third re-
23 commendation is to stress the importance of
24 the mix of policy to ensure continued growth.

25 6. Since even in times of excessive overall
26 demand in Canada, there is still unemploy-
27 ment of resources in the Atlantic Provinces,
28 we have examined means of excluding the
29 Region from the full impact of national
30 credit restrictions, and have offered three



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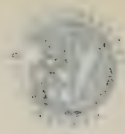


Nethercut & Young

Toronto, Ontario

A1784

1 suggestions in this regard. First, we
2 suggest that the Federal Government, the
3 Bank of Canada, and the commercial banks
4 examine the possibility of continuing a
5 flow of funds into investment in the
6 Atlantic Provinces which might otherwise
7 be cut off at a time of restrictions to
8 influence aggregate demand in the country
9 as a whole. This would be accomplished
10 not by legislation but by agreement and
11 co-operation among the three. Secondly,
12 we have suggested that the Federal Govern-
13 ment and the Central Mortgage and Credit
14 Corporation, and the Federal Government
15 and the Industrial Development Bank, should
16 consider making more funds available for
17 residential and industrial construction
18 in the Region than would otherwise be the
19 case during periods of credit restraint.
20 Thirdly, we suggest that the most effective
21 means of protecting the Atlantic Provinces
22 from the full force of national credit re-
23 strictions would be for the Federal Govern-
24 ment to speed up its expenditures on public
25 works to reflect the decline in private
26 investment which occurs as a result of the
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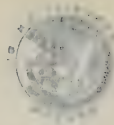
Introduction

The Atlantic Provinces Economic Council welcomes this opportunity of submitting to the Royal Commission on Banking and Finance, its views on matters relating to the Atlantic Provinces which come within the scope of the Terms of Reference of the Royal Commission.

The Atlantic Provinces Economic Council is an independent, non-political, non-governmental organization formed in 1954. It is dedicated to the objective of accelerated economic development in the Atlantic Provinces of Canada. It conducts research into economic matters, and recommends appropriate action to both government and industry.

The Council derives its income mainly from membership contributions by industry, commerce, other organizations and private individuals, and from research studies commissioned by public or private groups or individuals.

It will be appreciated that the matters coming within the concern of the Royal Commission on Banking and Finance are of great interest to the Atlantic Provinces Economic Council. This submission is presented with the sincere hope that it will be of some assistance to the Royal Commission in its study of the complex problems before it.



Atlantic Provinces Economic Council
St. John's, Nfld.

Introduction

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Section 1

Scope of the Submission

1. The structure and operation of the Canadian financial system has been, and will continue to be, a potent factor fashioning the course of economic development in Canada. From the point of view of both long-term growth and short-term stability we recognize the importance of the investigation of our financial system by the Royal Commission, and the great potential impact which your examination will have for the course which the Canadian economy will follow in the years ahead. We confidently assume that you will receive numerous valuable submissions stressing the national implications of your consideration of the financial system. For this reason, and because of our primary concern with economic development in the Atlantic Provinces, we will confine our remarks as closely as possible to the regional implications of your examination. In this way, also, we hope to be of maximum assistance to your deliberations.
2. It is perhaps desirable at this early stage to describe that area within the Terms of Reference of your Commission where we hope to make a contribution. We shall attempt to avoid use of the terms "monetary policy" and



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"fiscal policy" wherever possible because of the varying interpretations which are sometimes attached to these terms. The flow of funds in Canada is, of course, greatly influenced by the policies of the Bank of Canada, of the commercial banking system and of the Federal Government. We are concerned not solely with the Bank of Canada and the responsibility which the Bank has of regulating the liquid assets of the banking system and controlling total bank assets and liabilities. There are other institutions, both public and private, which effect a large part of the flow of funds in the Canadian economy. For example, the Central Mortgage and Housing Corporation and the Industrial Development Bank are responsible for a considerable part of the flow of funds into investment. So are the several provincial agencies which lend public money to agriculture, fishing and industry. Included among the private institutions are the life insurance companies, the trust companies, and the investment companies.¹ At the same time, it should be

¹Conforms with description by Professor Hood, Royal Commission on Canada's Economic Prospects, Financing of Economic Activity in Canada, page 319.



Government of Canada
Ottawa, Ontario

12107

"The Bank of Canada is the central bank of the country and is responsible for the issue of the various interpretations which are sometimes attached to these terms. The flow of funds in Canada is, of course, greatly influenced by the policies of the Bank of Canada, of the commercial banking system and of the Federal Government. We are concerned not solely with the Bank of Canada but also with the policies of the other banks of regulating the liquid assets of the banking system and controlling total bank assets and liabilities. There are other institutions, both public and private, which effect a large part of the flow of funds in the Canadian economy. For example, the Central Mortgage and Housing Corporation and the Industrial Development Bank are responsible for a considerable part of the flow of funds into investment. So are the several provincial agencies which lend public money to agriculture, fishing and industry. Included among the private institutions are the life insurance companies, the trust companies, and the investment companies.¹ At the same time, it should be

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1 noted that the flow of funds is influenced by
2 the number of potentially profitable in-
3 vestment opportunities at any time, on a
4 geographical basis, in any region of the
5 country. In other words, our main interest
6 is with the flow of funds to finance the
7 economic development of the Atlantic Pro-
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10 Section 2

12 The Economy of the Atlantic Provinces

13 3. Discussions of the lag in the economy of
14 the Atlantic Provinces usually stress the
15 lower per capita income, the relatively
16 slow rate of growth in the population and
17 the labour force, the higher rate of
18 unemployment, the greater incidence of
19 seasonality in employment patterns, and
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Section 3

Investment and Economic Growth

4. There are many factors which influence the course of economic development. Among these are natural resources, entrepreneurship, technological change, demographic patterns, institutional and cultural factors and government action. It will, however, be readily recognized that a "proper" level of capital accumulation is a prerequisite for economic growth. The "proper" level will be the level which will be required to provide full employment over time at increasing levels of output.
5. The Report of the Commission on Money and Credit in the United States points out that "the rate of growth of potential output - in the sense of the output forthcoming from the economy's use of its human and physical resources at a high level - depends on the rate of growth of the quantity and quality of our productive resources - labour, capital goods, natural resources, management and technology - and on the efficiency with which they are used. And potential output cannot be realized unless the total demand for goods and services increases at a rate equal to the growth of potential output."²

²The Report of the Commission on Money and Credit, Money and Credit, Their Influence on Jobs, Prices and Growth, Prentice-Hall Inc., Englewood Cliffs, 1961.



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6. In a free enterprise economy it is investment by the private sector to which we look for both major manifestations of, and encouragement to, economic growth. Yet it is private investment which is the most volatile and the most sensitive to changes in demand. It is apparent that overall demand in the Canadian economy during the period 1949-57 influenced, and in turn was influenced by, ever increasing levels of private investment (business gross fixed capital formation).³ During this period also public investment (government gross fixed capital formation) continued to rise.⁴ On a per capital basis private investment rose from \$226 in 1949 to \$306 in 1957. Although the tendency is for public investment to be more stable, on a per capita basis public investment rose from \$38 in 1949 to \$59 in 1952 and \$58 in 1957 and in 1957. As a result total investment per capita increased from \$264 in 1949 to \$364 in 1957. The following table traces the trend in per capita investment in Canada through the period 1949-60.

³Special Committee of the Senate on Manpower and Employment, Report, Ottawa, 1961.

⁴D.B.S., National Accounts, Income and Expenditure.

In a free enterprise economy it is investment by the private sector to which we look for both major manifestations of, and encouragement to, economic growth. Yet it is private investment which is the most volatile and the most sensitive to changes in demand. It is apparent that overall demand in the Canadian economy during the period 1949-57 influenced, and in turn was influenced by, ever increasing levels of private investment (business gross fixed capital formation).³ During this period also public investment (government gross fixed capital formation) continued to rise.⁴ On a per capita basis private investment rose from \$286 in 1949 to \$308 in 1957. Although the tendency is for public investment to be more stable, on a per capita basis public investment rose from \$38 in 1949 to \$39 in 1952 and \$38 in 1957 and in 1957. As a result total investment per capita increased from \$324 in 1949 to \$384 in 1957. The following table traces the trend in per capita investment in Canada through the period 1949-50.

³Special Committee of the Senate on Manpower and

Investment Per Capital, Canada, 1949-60

In Dollars (Constant 1949) Per Capita

Year	Gross Fixed Capital Formation		
	<u>Business</u>	<u>Government</u>	<u>Total</u>
1949	226	38	264
1950	231	41	272
1951	236	48	284
1952	248	59	307
1953	264	52	316
1954	243	48	291
1955	252	51	303
1956	304	58	362
1957	306	58	364
1958	278	56	334
1959	262	58	320
1960	241	58	299

Source: Computed from D.B.S., National Accounts,
Income and Expenditure.

7. Not only was total investment in the Maritime Provinces less than two-thirds total investment in Canada on a per capita basis during this period, and in Newfoundland about one-half,⁵ but public investment accounted for a much greater proportion of the total in the Atlantic Region. In Canada between 1949 and 1957 inclusive investment by institutions and government departments accounted for 19 per cent of total new investment, and in the two Maritime Provinces of Nova Scotia and New Brunswick for 31 per cent.⁶

8. During the 1949-57 period in Canada overall demand was sufficient to encourage a con-

⁵See Appendix A.

⁶Computed from Department of Trade and Commerce, Private and Public Investment in Canada, various issues. It is impossible to include Prince Edward Island and Newfoundland in this analysis because of the inclusion of investment in housing with institutional and government department investment data for those provinces.

Investment for Capital, Canada, 1949-50

In Billions (Constant 1949) per annum

Year	Business	Government	Private
1949	100	100	100
1950	100	100	100
1951	100	100	100
1952	100	100	100
1953	100	100	100
1954	100	100	100
1955	100	100	100
1956	100	100	100
1957	100	100	100
1958	100	100	100
1959	100	100	100
1960	100	100	100
1961	100	100	100
1962	100	100	100
1963	100	100	100
1964	100	100	100
1965	100	100	100
1966	100	100	100
1967	100	100	100
1968	100	100	100
1969	100	100	100
1970	100	100	100

Source: Computed from D.B.S., National Accounts.

Income and Expenditure

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tinually increasing rate of investment, and in turn to be encouraged by it, so that the economy expanded rapidly and employment was high. At no time did the rate of unemployment rise above 4.3 per cent of the labour force (in 1954 and 1957) and in six years of the period it was below 3.2 per cent.⁷

9. In the Atlantic Provinces investment was less than two-thirds that of Canada on a per capita basis, a relatively large portion of total investment was by institutions and government departments, and unemployment rates were high - never below 4.3 per cent. In fact the rate was 8 per cent or over in 1950 and 1957, and between 5.3 per cent and 6.6 per cent in 1953 through 1956.⁸

10. In Canada during the period 1957-60 private investment declined in both aggregate and per capita terms. Although public investments per capita remained firm, total per capita investment declined each year during the period. During this period also investment by institutions and government departments rose to 23 per cent of total new investment in Canada and remained approximately steady in Nova Scotia and New Brunswick.⁹ Under these influences of decreased

⁷Computed from D.B.C., The Labour Force. All rates are annual averages.

⁸Ibid.

⁹Computed from Private and Public Investment in Canada, op.cit.



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- 1 overall demand and decreased investment
2 unemployment rates rose to 5.6-6.3 per
3 cent in Canada and 10.6-12.5 per cent in
4 the Atlantic Provinces.
- 5 11. Thus our interest in investment is twofold.
6 First, the rate of investment in the
7 Atlantic Provinces must be brought into
8 a more favourable relationship with that
9 of Canadian investment to promote a more
10 rapid rate of regional economic growth.
11 Secondly, we are interested in maintaining
12 overall demand to encourage increasing levels
13 of investment and continued growth in both
14 Canada and the Atlantic Region.

15
16 Section 4

17
18 Encouraging Investment

- 19 12. The problem of the Atlantic Provinces is
20 not unique. As a matter of fact,
21 practically all industrial countries have
22 within their borders areas which are
23 economically retarded. Generally policies
24 to assist these areas, and most nations
25 have subscribed to the principle of a better
26 balance among their constituent areas, are
27 designed to encourage investment.
- 28 13. The Royal Commission on Canada's Economic
29 Prospects considered the role of improved
30 public facilities to encourage the further



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1 development of the resources of the Atlantic
2 Region. It suggested that a Capital Pro-
3 jects Commission for the Atlantic Provinces
4 should be established. The purpose of the
5 Commission would be to provide over a
6 reasonably short period the facilities
7 which are needed for further development,
8 and to co-ordinate all capital expenditures
9 and subsidies in the Region for this pur-
10 pose, other than projects which are
11 national in scope. We urge the creation
12 of a commission of this nature.

- 13 14. In Western European nationsl government
14 grants play an important role in encour-
15 aging regional development. In the United
16 Kingdom and in Belgium emphasis is placed
17 on the preparation of industrial sites
18 and the construction of plants to encourage
19 industrial location. Government agencies in
20 Great Britain and Northern Ireland have
21 designed and constructed groups of factories
22 to various standard specifications prior
23 to the location of tenants, as well as in
24 terms of particular tenant specifications.
25 In Britain also a grant is available to
26 cover 85 per cent of the excess of the
27 cost of putting up a new building or ex-
28 tension over its market value. This was
29 designed as an incentive to industrialists
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In other European countries, in Norway and in Italy for example, substantial assistance is available to encourage the development of key or "corner stone" plants - plants capable of exerting considerable future direct and indirect impact on the area's economy.

15. The object of these policies is capital formation in economically retarded areas. The emphasis is on industrial estate plans and on "corner stone" plants where such development will encourage, directly and indirectly, new demand, new investment and new employment in the area. We recommend the establishment by the Government of Canada of a fund from which grants would be available to assist the development in the Atlantic Provinces of "corner stone" plants, industrial estates or other establishments with considerable multiplier impact, the exact nature and organization of the fund to be determined by the federal and provincial governments.

Section 5

Maintaining Overall Demand

16. Earlier in this submission we indicated that we did not intend to dwell upon the



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Section 3

Maintaining Overall Demand

16. Earlier in this submission we indicated
that we did not intend to dwell upon the



1 purely national aspects of your Commission's
2 inquiry. Our remarks in this section will
3 be general and brief.

4 17. The American Commission on Money and Credit¹⁰
5 noted that monetary, credit and fiscal
6 policies can influence significantly the
7 composition of demand and the aggregate
8 level of demand. The Commission then stated
9 that "the problem of the mix of policy
10 measures is so to influence the level and
11 composition of demand that the aggregate
12 levels of public plus private demands will
13 result in sustained high level output and
14 employment and that the share of capital
15 formation in total output will generate
16 an adequate rate of growth".

17 18. Elaborating further on the policy mix the
18 Commission noted that "at any given time
19 there exists a basic tax structure, a
20 pattern of government credit programs, a
21 level of money supply, a structure of in-
22 terest rates, and other monetary and credit
23 conditions", all of which "affect the level
24 and composition of demand in the economy".
25 In other words, monetary, fiscal, debt
26 management and credit policies must be
27 co-ordinated to provide sustained growth,
28 a high level of employment and reasonable
29 price stability. But as the Radcliffe

30 ¹⁰ Report of Commission on Money and Credit, op.cit.



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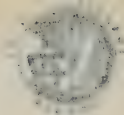
1 Committee¹¹ pointed out, "there is no
2 prescription which determines the propor-
3 tion in which at any one period these
4 measures should be combined".

5 19. Monetary policy, as ordinarily interpreted,
6 is designed to influence aggregate demand.
7 But the American Commission on Money and
8 Credit noted that an increasingly large
9 proportion of business investment is
10 financed with internal funds and not
11 affected by interest rate and money supply
12 policies. The Commission also pointed out
13 that "changes of interest costs are often
14 said to have a negligible influence on
15 business investment compared with the
16 uncertainties regarding future sales,
17 profits, costs, and capacity requirements".¹²
18 In addition, monetary policy, by its in-
19 fluence on aggregate demand, "disturbs
20 some institutions and some people more
21 than others".¹³ Later the American
22 Commission noted that "general monetary
23 measures affect short-term interest rates
24 more than long-term rates, housing expendi-
25 tures more than business expenditures for
26 plant and equipment and inventories, and

27 ¹¹Committee on the Working of the Monetary System,
28 Report, London, 1959.

29 ¹²The Report of the Commission on Money and Credit,
30 op. cit.

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- 1 expenditures for consumer durable goods
2 more than for non-durable goods".¹⁴
- 3 20. There are, of course, some fiscal devices,
4 for example, changes in the personal income
5 tax, which are designed to influence
6 aggregate demand. Other types of public
7 policies are more selective in nature.
8 Public policy can, and does for example,
9 direct credit in favour of such sectors
10 as residential housing, agriculture,
11 transportation, small business and exports.
12 Taxation policy may also contain elements
13 of discrimination. For instance, it has in
14 Canada been considered desirable to dis-
15 criminate in favour of oil and gas explora-
16 tion and of industries producing new pro-
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18 area. Public investment is also used to
19 influence the direction and pace of
20 economic development.
- 21 21. Monetary policy in the long run should
22 ensure that the rate of growth of the money
23 supply keeps pace with the rate of growth
24 of real output at high employment and
25 reasonably stable prices. The tax structure
26 should also be designed to provide maximum
27 levels of employment. At times special
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1 areas of economic activity on an industrial,
2 national or regional basis. Certain types
3 of government expenditure contribute
4 directly to the pace of economic growth,
5 others complement private investment, and
6 still others stir advances in technology.

7 22. In short, monetary policy is non-dis-
8 criminatory in its effect while other
9 policies are more selective. In recent
10 years Canada has tended to place emphasis
11 on monetary techniques to direct the course
12 of the economy. As previously noted a
13 restrictive monetary policy, in the words
14 of the Radcliffe Committee, "disturbs some
15 institutions and some people more than
16 others". Professor Barber pointed out in
17 the Canadian Journal of Economics and
18 Political Science, February, 1962, that
19 "as capital spending increased in the face
20 of the Bank of Canada's restrictive
21 monetary policy, prospective spenders
22 were forced to resort increasingly to
23 foreign sources of funds. The conversion
24 of these funds into Canadian dollars
25 exerted upward pressure on the exchange
26 market and, as a result, the value of our
27 dollar which had slipped back to about par
28 in late 1955, climbed steadily throughout
29 1956 and 1957 until it reached a peak of
30 almost 6 per cent in August, 1957".¹⁵

¹⁵Barber, Clarence L., Canada's Unemployment Problem, Canadian Journal of Economics and Political Science, February, 1962.

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in late 1982, climbed steadily throughout
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almost 2 per cent in excess, 1984, is



1 23. Insofar as a restrictive monetary policy
2 contributes to an appreciation of the
3 Canadian dollar, it has important conse-
4 quences for a region which is highly
5 dependent on export markets. In the
6 Atlantic Provinces, the forestry, mining
7 and fisheries industries, which accounted
8 for nearly 40 per cent of the Region's
9 net value of commodity production in 1959,¹⁶
10 are dependent on exports to a high degree.
11 Also to the extent that a restrictive
12 monetary policy contributes to discourage
13 investment by provincial and municipal
14 governments in infrastructures, it tends
15 to deter economic development. This, of
16 course, applies to all areas of the
17 country. But in the Atlantic Provinces
18 where the problem is one of encouraging
19 development rather than of restraining
20 excessive demand it assumes more serious
21 dimensions. In addition, it is small
22 business which is most affected by re-
23 strictive monetary practices, and small
24 businesses tend to be a feature of the
25 economy of the Atlantic Provinces.

26 24. In the Atlantic Provinces personal income
27 per capita is about two-thirds of the
28 Canadian level. In periods of credit re-
29 straint when interest rates tend to be high,

30 ¹⁶Includes primary forestry, fishing and mining,
and fish processing, saw milling and pulp and
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1 a burden is placed on the buyer of new
2 residential dwellings in the region which,
3 in relation to his income, is out of propor-
4 tion with the burden imposed in areas
5 where personal income per capita is higher.
6 This may mean that a potential buyer must
7 abandon or defer his intention to purchase,
8 or if he proceeds, his spending on other
9 items will be correspondingly lower. This
10 will apply also to the small businessman -
11 he may be forced to forego necessary
12 capital spending, or cut back elsewhere
13 in his spending, in such periods. We have
14 already noted that small business tends
15 to be a feature of the regional economy.

16 25. It is not our intention to offer any firm
17 recommendations to your Commission as a
18 result of these remarks. Earlier in our
19 submission we indicated that, because of
20 the many valuable briefs which will be
21 presented to you as to the national aspects
22 of your problem, and because our immediate
23 concern is primarily with the economic
24 development of the Atlantic Provinces, we
25 would confine our discussion to matters
26 of basically regional impact. Our first
27 interest as Canadians is, of course, with
28 the achievement and maintenance of a satis-
29 factory growth rate in the national economy.
30 We have, however, ventured into this field



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1 primarily because, as we have shown, a
2 drop in aggregate national demand has
3 serious consequences for the Atlantic Re-
4 gion. We can only suggest that rather than
5 considering monetary policy, fiscal policy,
6 debt management policy and public investment
7 policy separately we must in future con-
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9 policies at any particular time to ensure
10 a proper level of economic growth in Canada.

11
12 Section 6

13
14 The Financial System and the Atlantic Provinces.

15 26. We have already noted that we believe the
16 first and most important requirement to
17 promote a more rapid rate of growth in the
18 Atlantic Provinces is a very substantial
19 injection of new capital - and this over a
20 relatively short period of time. We have
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22 the spending of federal funds to improve
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24 of economic development, and by the pro-
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Section 8

The Financial System and the Atlantic Provinces

26. We have already noted that we believe the first and most important requirement to promote a more rapid rate of growth in the Atlantic Provinces is a very substantial injection of new capital - and this over a relatively short period of time. We have suggested that this can be accomplished by the spending of federal funds to improve and extend the basic service requirements of economic development, and by the provision of adequate federal funds to encourage and assist private investment which would have a considerable direct and indirect effect on the Region's economy. We have also advanced some remarks concerning the operation of the Canadian financial system and its



1 effect on the Atlantic Provinces. In this
2 section we shall discuss this matter in
3 more detail.

4 27. Policies which affect the flow of funds
5 into investment include, as we previously
6 suggested, not only the Bank of Canada
7 and the chartered banks, but also a host
8 of other public and private institutions.
9 Those policies which are aimed at aggregate
10 demand will tend to affect all areas of
11 the country indiscriminately. For example,
12 if aggregate demand is excessive a policy
13 of restraint will be designed to relieve
14 the pressure of the excessive demand
15 generally, even though demand in the
16 Atlantic Provinces is not sufficient to
17 provide full employment. We would not
18 suggest that the Atlantic Region could be
19 completely sheltered from the effects of
20 such restraint. The Region would be in-
21 fluenced, for instance, through sales of
22 regional firms in other parts of Canada,
23 through interest rates which regional
24 borrowers would have to pay, and through
25 the credit rating of regional borrowers whose
26 prospects are related to the tempo of business
27 elsewhere. Nor do we suggest that relief
28 from restraint would have any appreciable
29 effect on long-term regional development.
30 We do suggest, however, that there are

... we shall discuss this matter in more detail.

21. Policies which affect the flow of funds

Two investments include, as we previously suggested, not only the Bank of Canada

and the chartered banks, but also a host

of other public and private institutions.

Those policies which are aimed at expanding

demand will tend to affect all areas of

the economy.

If aggregate demand is excessive a policy

of restraint will be designed to relieve

the pressure on the monetary system.

Generally, even though demand in the

Atlantic provinces is not sufficient to

provide full employment, we would not

suggest that the Atlantic Region could be

completely shielded from the effects of

such restraint. The Region would be in-

fluenced, for instance, through sales of

regional firms in other parts of Canada,

through increased inter-regional

movements which have to pay and through

the credit rating of regional borrowers when

proposals are related to the demand of business

elsewhere. Nor do we suggest that relief

from restraint would have any appreciable

effect on the economy.

We do suggest, however, that there are



1 selective as well as general techniques in
2 this field which can be employed to en-
3 courage regional development. We referred
4 generally to this in our discussion of the
5 mix of policy in Section 5, and suggested
6 in Section 4 two selective policies to assist
7 the flow of funds into investment in the
8 Region. We have also referred to taxation
9 policy which gives preferred treatment to
10 some industries and to labour surplus
11 areas.

12 28. As Professor Cairncross¹⁷ suggested there
13 is a reason for applying credit restrictions
14 less rigorously in the Atlantic Provinces
15 when such restrictions are necessary to
16 influence aggregate demand in the country
17 as a whole. With regard to bank credit,
18 Professor Cairncross suggested that the
19 commercial banks could be encouraged to
20 exempt selected provinces or other ad-
21 ministrative areas from the full force of
22 credit restrictions. It would be difficult
23 to devise legislation for this purpose, and
24 in fact legislation might be an inefficient
25 way of accomplishing it. Rather, if such a
26 policy had "the full backing of the Federal
27 Government, and was recognized to involve

28
29 ¹⁷Cairncross, A.K., Economic Development and the
30 Atlantic Provinces, Atlantic Provinces Research
Board, Fredericton, 1961.



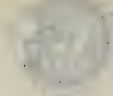
selective as well as general techniques in this field which can be employed to encourage regional development. We referred generally to this in our discussion of the mix of policy in Section 5, and suggested in Section 4 two selective policies to assist the flow of funds into investment in the region. We have also referred to taxation policy which gives preferred treatment to some industries and to labour surplus

28. As Professor Cairncross¹⁷ suggested there is a reason for applying credit restrictions less rigorously in the Atlantic Provinces when such restrictions are necessary to influence aggregate demand in the country as a whole. With regard to bank credit, commercial banks could be encouraged to exempt selected provinces on other administrative areas from the full force of credit restrictions. It would be difficult to devise legislation for this purpose, and in fact legislation might be an inefficient way of accomplishing it. Rather, it such a policy had "the full backing of the Federal Government, and was associated to involve

¹⁷Cairncross, A. R., Economic Development and the
Atlantic Provinces, 1964, p. 101.



1 co-operation between government, central
2 bank and commercial banks", Professor
3 Cairncross suggested that the commercial
4 banks would likely agree to a measure of
5 this nature. All this would mean would
6 be that the banks would "refrain from taking
7 action (in the Region) dictated to them over
8 the rest of their operations by concern for
9 their liquidity". They would still continue
10 to reject unfavourable loan applications,
11 their interest rates would not necessarily
12 remain unchanged, and their lending in the
13 Region might decline or rise no faster
14 than in other areas. We suggest that the
15 Federal Government, the Bank of Canada and
16 the commercial banks examine this possi-
17 bility with a view to continuing a flow of
18 bank credit into investment in the Atlantic
19 Provinces which might otherwise be cut off
20 at a time of restrictions to influence
21 aggregate demand in the country as a whole.
22 29. Professor Cairncross also referred to the
23 policy of the Central Mortgage and Housing
24 Corporation. Residential construction
25 actively has considerable possibility of
26 counter-cyclical impact, and has been used
27 for this purpose in Canada. It would, of
28 course, be of no practical value to exempt
29 the Atlantic Provinces from the full re-
30 striction of credit for residential housing



cooperation between government, banks and commercial banks, Professor
 witnesses suggested that the commercial
 banks would likely agree to a measure of
 this nature. And this would mean would
 be that the banks would "begin from seeing
 action in the field" directed to them over
 the rest of their operations in connection for

to reject unworkable loan applications,
 their interest rates would not necessarily
 remain unchanged, and that lending in the
 field might decline or rise no faster
 than in other areas. We suggest that the
Western Government, the Bank of Canada and
the commercial banks should in their
policy with a view to obtaining a flow of
new credit into investment by the Atlantic

at a time of recession in the
 economy and in the country as a whole.
 Professor O'Brien also referred to the
 policy of the Government and the
 Corporation. He suggested consideration
 entirely new standards in possibility of
 commercial banks and that they have been used
 for this purpose in Canada. He said, of
 course, that the banks are valued in excess
 of the value of their assets and that the
 absorption of funds for residential housing



1 unless a demand for such credit exists.

2 We suggest that the Federal Government and
3 the Central Mortgage and Housing Corporation
4 should consider making more funds available
5 for residential construction in the Atlantic
6 Provinces than would otherwise be the case
7 during periods of credit restraint. We
8 further suggest that this policy apply also
9 to the activities of the Industrial Develop-
10 ment Bank.

11 30. There are, however, more direct means of
12 protecting the Atlantic Provinces against
13 the full impact of credit restraint.
14 Professor Cairncross suggested that "the
15 most direct method is through increased
16 disbursements by the Federal Government
17 either in public works or through higher
18 grants-in-aid". He went on to note that
19 "this does not mean that every time credit
20 is restricted the Federal Government should
21 embark on some grandiose project hitherto
22 pigeon-holed and of doubtful long-term value
23 to the area. It ought rather to imply
24 some speeding-up of work already in hand
25 throughout the area, at a rate that may
26 do little more than reflect the slowing-
27 down of private investment". Then in
28 summary Professor Cairncross stated, "What
29 this comes to is that it is easiest to off-
30 set the consequences of a general restriction



Nethercut & Young

Toronto, Ontario

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1 of credit by stepping up local expenditure
2 in the areas where there is still plenty
3 of slack". We suggest that a policy of
4 speed-up in federal public works expendi-
5 tures is appropriate in the Atlantic
6 Provinces during periods of general credit
7 restriction.

Appendix AThe Economy of the Atlantic Provinces1. Per Capita Income

Per capita income levels in the Atlantic Provinces are considerably below those in Canada as a whole. During the period since 1940 personal income per capita in the three Maritime Provinces has been approximately 70 per cent of personal income per capita in Canada as a whole. In Newfoundland, personal income per capita has ranged between 50 per cent and 60 per cent of per capita income in the nation as a whole. There is no evidence of any long-term improvement in these relative positions.

Table 1

Personal Income Per Capita, Maritime Provinces and Newfoundland, as Per Cent Personal Income Per Capita, Canada, 1940-1960.

<u>Year</u>	<u>Maritime Provinces</u>	<u>Newfoundland</u>
1940	70.1%	%
1941	69.5	
1942	67.4	
1943	71.7	
1944	71.3	
1945	75.4	
1946	79.1	
1947	76.4	
1948	69.1	
1949	70.6	50.2
1950	70.8	51.5
1951	66.3	50.3
1952	66.9	48.7
1953	66.9	51.2
1954	70.2	54.2
1955	68.9	53.4
1956	69.5	53.8
1957	68.9	56.1
1958	69.4	56.5
1959	70.0	55.1
1960	71.6	55.6



Source: D.B.S., National Accounts, Income and
Expenditure, various issues.

2. Population

The population of Canada rose by 55 per cent between 1940 and 1961. During this same period the population of the Maritime Provinces increased by 29 per cent, while Newfoundland's rate of population increase approximately paralleled that in Canada as a whole.

There are two factors accounting for the more rapid rise in the population of Canada than in the population of the Maritime Provinces. In the first place the Maritime Provinces have attracted only an insignificant proportion of the immigrants who have come to Canada since the end of World War II. Secondly, a large proportion of the native born move out of the Maritimes to other parts of Canada and to the United States. Mrs. Levitt estimates that during the decade 1941-51 net migration from Prince Edward Island amounted to 78 per cent of the natural increase in population, from Nova Scotia 38 per cent, and from New Brunswick 42 per cent. During the period 1951-56 she estimates 90 per cent for Prince Edward Island, 16 per cent for Nova Scotia and 35 per cent for New Brunswick. At the same time, it is among the young adult age group that the highest rate of out-migration occurs.¹ The situation in



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in the same decade 1941-51 net migration from Prince Edward Island amounted to 78 per cent of the natural increase in population, from Nova Scotia 38 per cent, and from New Brunswick 42 per cent. During the period 1951-58 the estimates 90 per cent for Prince Edward Island, 18 per cent for Nova Scotia and 35 per cent for New Brunswick. At the same time, it is among the young adult age group that the highest rate of out-migration occurs. The situation in



1 Newfoundland is largely due to a high birth
2 rate, the extension of health services with a
3 resultant drop in the death rate, and very
4 little net out-migration. During the 1951-56
5 period for example, Mrs. Levitt estimates no net
6 out-migration from the Province.²

27 ¹Levitt, Kari, Population Movements in the
28 Atlantic Provinces, a study commissioned by
29 the Atlantic Provinces Research Board and
30 prepared by the Atlantic Provinces Economic
Council, Fredericton, 1960.

²Ibid.



New emigration is largely due to a high birth
 rate, the retention of healthy families with a
 relatively high to low death rate, and very
 little out-migration. During the last 25
 period for example, Mrs. Levitt estimates no net
 out-migration from the Province.²

Levitt, Karl. Population Movements in the
 Atlantic Provinces, a study commissioned by
 the Atlantic Provinces Research Board and
 prepared by the Atlantic Provinces Economic
 Council.

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Table 2

Population, Canada and Atlantic Provinces,
1940-61

In 1000

Year	Canada*	Maritime Provinces	Newfoundland
1940	11,682	1,116	301
1941	11,810	1,130	303
1942	11,962	1,145	308
1943	12,108	1,160	313
1944	12,262	1,163	316
1945	12,394	1,178	322
1946	12,622	1,180	330
1947	12,888	1,197	337
1948	13,167	1,216	344
1949	13,447	1,231	345
1950	13,712	1,246	351
1951	14,007	1,257	361
1952	14,459	1,279	374
1953	14,845	1,297	383
1954	15,287	1,314	395
1955	15,698	1,330	406
1956	16,081	1,349	415
1957	16,589	1,366	426
1958	17,048	1,387	438
1959	17,442	1,408	449
1960	17,814	1,426	459
1961	18,085	1,443	468

% Inc.

1940-61 54.8 29.3 55.5

*Includes Newfoundland both before and after
Confederation.Source: D.B.S., Canadian Statistical Review,
various issues.



TABLE 2

Estimated Canada and Alaska Timber Resources

Year	Canada*	Alaska	Timber Resources
1900	11,882	1,110	12,992
1901	11,810	1,110	12,920
1902	11,882	1,146	13,028
1903	11,882	1,160	13,042
1904	11,882	1,160	13,042
1905	11,882	1,160	13,042
1906	11,882	1,160	13,042
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2095	11,882	1,160	13,042
2096	11,882	1,160	13,042
2097	11,882	1,160	13,042
2098	11,882	1,160	13,042
2099	11,882	1,160	13,042
2100	11,882	1,160	13,042

*Includes Newfoundland both before and after Confederation

Source: U.S. Department of the Interior, Bureau of Land Management, Timber Resources of the United States, 1900-1999

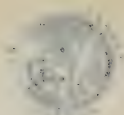
3. Labour Force, Employed, UnemployedTable 3Labour Force, Employed, Unemployed, Atlantic
Provinces, 1953-61Annual Averages

Year	Labour Force		Employed		Unemployed	
	In '000	Index	In '000	Index	In '000	Index
1953	505	100.0	478	100.0	27	100.0
1954	501	99.2	468	97.9	33	122.2
1955	511	101.2	478	100.0	33	122.2
1956	521	103.2	490	102.5	31	114.8
1957	541	107.1	496	103.8	45	166.7
1958	544	107.7	476	99.6	68	251.9
1959	553	109.5	493	103.1	60	222.2
1960	567	112.3	507	106.1	60	222.2
1961	592	117.2	526	110.0	66	244.4

Source: D.B.S., The Labour Force, various issues.

Because of a slower rate of population growth and of a somewhat lower labour force participation rate, it is to be expected that the size of the labour force would grow less rapidly in the Atlantic Provinces than in the country as a whole. Also the numbers employed in the Atlantic Region have grown less rapidly than the size of the labour force. During the period 1953-61 the labour force grew by 17 per cent and the numbers employed by 10 per cent. In 1961 of an addition to the labour force of 25,0000, the equivalent of 76 per cent found jobs and 6,000 joined the ranks of the unemployed.

The rate of unemployment in the Atlantic Provinces has consistently been above that prevailing in other regions.



Year	Labour Force In '000 Index	Unemployed In '000 Index	Unemployed In '000 Index
1961	582	114.2	568
1960	587	112.3	575
1959	583	109.3	574
1958	544	107.7	476
1957	541	107.1	456
1956	521	103.2	490
1955	511	101.2	479
1954	501	99.2	468
1953	505	100.0	478

Source: D.B.S., The Labour Force, various tables.

Because of a slower rate of population growth and of a somewhat lower labour force participation rate, it is to be expected that the state of the labour force would grow less rapidly in the Atlantic Provinces than in the country as a whole. Also the numbers employed in the Atlantic Region have grown less rapidly than the size of the labour force. During the period 1953-61 the labour force grew by 17 per cent and the numbers employed by 10 per cent. In 1961 in addition to the labour force of 25,000, the equivalent of 76 per cent found jobs and 6,000 joined the ranks of the unemployed. The rate of unemployment in the Atlantic Provinces has consistently been above that prevailing in other regions.



Table 4

Rate of Unemployment*, Canada by Regions, 1953-61

Year	Atlantic Provinces	Quebec	Ontario	Prairie Provinces	British Columbia
1953	5.3	3.8	2.1	1.8	3.8
1954	6.6	5.9	3.8	2.5	5.2
1955	6.5	6.2	3.2	3.1	3.5
1956	6.0	5.0	2.4	2.2	2.8
1957	8.3	6.0	3.4	2.7	5.0
1958	12.5	8.8	5.4	4.1	8.5
1959	10.8	7.9	4.5	3.3	6.4
1960	10.6	9.1	5.4	4.2	8.7
1961	11.1	9.3	5.5	4.6	8.5

* Numbers unemployed expressed as per cent of the labour force, annual averages.

Source: D.B.C., The Labour Force, various issues.

4. Seasonal Unemployment and Underemployment.

An annual average unemployment rate reflects, of course, seasonality in employment patterns. Seasonal unemployment is a problem in Canada, but a greater problem in the Atlantic Provinces. We estimate that in the Maritime Provinces during the 1955-59 period for non-agricultural employment, the seasonal low was 92.4 per cent of the average for the period, and the seasonal high was 105.8 of the average. The spread between the high and the low was thus 13.4 percentage points. In Newfoundland it was 24.2 and in the rest of Canada (Canada excluding the Atlantic Provinces) it was 7.4.³

³Sparks, A.C., The Economy of the Atlantic Provinces, 1940-58, Atlantic Provinces Research Board and Atlantic Provinces Economic Council, Fredericton, 1960.



Table 4

Rate of unemployment, 1940-58, Atlantic Provinces Research Board

Year	Atlantic Provinces	Atlantic Provinces (excl. N.S.)	Atlantic Provinces (excl. N.B.)	Atlantic Provinces (excl. P.E.I.)	Atlantic Provinces (excl. N.S., N.B., P.E.I.)
1940	11.1	9.3	8.5	4.6	8.5
1941	10.6	9.1	8.4	4.2	8.7
1942	10.8	7.9	4.5	3.3	8.4
1943	12.5	8.8	3.4	4.1	8.5
1944	8.3	6.0	3.4	2.7	6.0
1945	6.0	5.0	2.4	2.2	5.3
1946	6.5	6.2	3.2	3.1	5.2
1947	6.6	5.9	3.8	2.5	5.2

* Numbers unemployed expressed as per cent of the labour force, annual averages.

1. Seasonal Unemployment and Underemployment

An annual average unemployment rate reflects, of course, seasonality in employment patterns. Seasonal unemployment is a problem in Canada, but a keener problem in the Maritime Provinces. We estimate that in the Maritime Provinces during the 1955-59 period for non-conditional employment, the seasonal low was 92.4 per cent of the average for the period, and the seasonal high was 105.8 of the average. The spread between the high and the low was thus 13.4 percentage points. In Newfoundland it was 24.5 and in the rest of Canada (Canada excluding the Atlantic Provinces) it was 7.4.



1 For the period 1950-55 Dr. Howland
2 estimates the amplitude of seasonal unemployment
3 for the Atlantic Provinces to be 8.6 percentage
4 points and for Ontario 4.9 percentage points.
5 He also suggests that in the Atlantic Region
6 in 1951 some 30,000 man-years of labour were lost
7 through differences in employment conditions re-
8 lating to time worked.⁴

9 It is difficult to offer a precise
10 measure of underemployment. With regard to
11 the Atlantic Region the Royal Commission on
12 Canada's Economic Prospects noted:⁵

13 "... one of the most striking features
14 of the economy of the Atlantic Provinces
15 is the disproportionately large number
16 of people engaged in marginal activities,
17 subsistence farming, fishing and logging,
18 or some combination of these. Such
19 occupations are the source of the low
20 incomes which seriously affect average
21 earnings in the region. This prevalence
22 of subsistence occupations in the
23 Atlantic Provinces is in part a symptom
24 of more basic problems. Elsewhere in Canada
25 these occupations are often associated
26 with the fringe of the more highly developed
27

28 ⁴Howland, R.D., Some Regional Aspects of Canada's
29 Economic Development, Royal Commission on Canada's
30 Economic Prospects, Ottawa, 1957.

⁵Royal Commission on Canada's Economic Prospects,
Final Report, Ottawa, 1957.



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 Atlantic Provinces is in part a symptom
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 these occupational areas and their associated
 with the fringe of the more fully developed

¹Howland, R.D., Some Regional Aspects of Canada's
 Economic Development, Royal Commission on Canada's
 Economic Prospects, Ottawa, 1967.
²Royal Commission on Canada's Economic Prospects,
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"and expending areas. But in the Atlantic Provinces the phenomenon is more closely related to a lag in economic growth and directs attention to one of the main reasons for this lag in economic activity, namely, the relatively slow rate of new capital investment in the Atlantic Provinces."

5. Commodity Output

Table 5:

Net Value of Commodity Production, Canada and Atlantic Provinces, 1940-59

In \$ '000

<u>Year</u>	<u>Canada</u>	<u>Maritime Provinces</u>	<u>Newfoundland*</u>
1940	3,730,225	224,395	
1941	4,572,505	249,381	
1942	6,046,079	307,527	
1943	6,390,459	350,112	
1944	6,981,043	378,851	
1945	6,307,666	361,680	
1946	6,762,258	389,647	
1947	8,011,144	428,198	
1948	9,427,809	494,904	
1949	9,734,887	507,001	
1950	10,928,879	537,572	
1951	13,169,417	610,335	146,850
1952	14,064,045	628,893	153,332
1953	14,712,673	629,143	149,195
1954	14,165,720	637,791	165,436
1955	15,849,948	676,440	190,913
1956	17,782,038	745,079	212,312
1957	17,919,713	734,556	192,812
1958	18,073,718	742,006	190,229
1959	18,827,759	773,846	210,402
% Inc.			
1940-59	404.7	244.9	
% Inc.			
1951-59	43.0	26.8	43.3

These figures reflect price changes.

*Newfoundland data exclude agriculture.

Source: D.B.S., Survey of Production, 1959.



"and expanding areas. But in the Atlantic Provinces the phenomenon is more closely related to a lag in economic growth and directs attention to one of the main reasons for this lag in economic activity, namely, the relatively slow rate of new capital investment in the Atlantic Provinces."

Table 1

Net Value of Commodity Production, Canada and Atlantic Provinces, 1940-52

In \$ '000

Year	Atlantic Provinces	Canada
1940	2,780,325	224,395
1941	2,780,325	224,395
1942	6,046,079	307,527
1943	6,300,469	350,112
1944	6,300,469	350,112
1945	6,307,666	361,680
1946	6,732,758	382,947
1947	8,011,144	454,904
1948	8,427,609	507,001
1949	8,734,887	537,575
1950	10,988,879	610,335
1951	12,169,417	628,895
1952	14,084,045	629,143
1953	14,712,678	637,791
1954	14,165,120	745,019
1955	17,792,038	744,556
1956	17,919,713	747,006
1957	18,073,718	773,815
1958	18,827,780	

% Inc. 1940-52 407.7 244.9

% Inc. 1951-52 63.0 26.8 43.3

These figures reflect price changes.



1 In the table above, because of the
2 differences in the industrial composition between
3 the Atlantic Provinces and Canada, and indeed the
4 composition of products within each sector, it
5 was considered unwise to attempt to use any of
6 the available price indexes, or combination of
7 them, to determine net value in real terms. The
8 results, therefore, reflect price changes as well
9 as trends in commodity production. They are,
10 however, sufficient to show that commodity out-
11 put has risen at a substantially higher rate
12 in the nation as a whole than it has in the
13 Atlantic Provinces.

14 6. Investment

15 We have already referred to an observa-
16 tion of the Royal Commission on Canada's Economic
17 Prospects regarding investment in the Atlantic
18 Region. The Commission stated that "the re-
19 latively slow rate of new capital investment in
20 the Atlantic Provinces" is a main reason for the
21 slow rate of economic growth. This in turn is
22 responsible for the high levels of underemploy-
23 ment and the income differential.

24 Since 1949 new capital investment per
25 capita in the Maritime Provinces has generally
26 been below two-thirds of that in Canada as a
27 whole - in only four years during this period was
28 it slightly above two-thirds, and on six occasions
29 was less than 55 per cent of the Canadian figure.
30 In Newfoundland new investment per capita has been



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been below two-thirds of that in Canada as a
whole - in only four years during this period was
it slightly above two-thirds, and on six occasions
was less than 50 per cent of the Canadian figure.
In Newfoundland new investment per capita has been



slightly under or slightly over one-half that in Canada. The only exceptions were in 1952, 1960 and 1961. For the latter two years the data are still preliminary.

With a lag in investment of this magnitude a lag in development is to be expected. Increased levels of capital accumulation hold the key to accelerated economic growth in the Atlantic Provinces.

Table 6

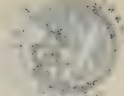
New Investment Per Capita in Buildings and Machinery, Canada and Atlantic Provinces, 1949-61

Year	Canada Per Capita Inv.	Maritime Provinces Per Capita Inv.	% of Canada	Newfoundland Per Capita Inv.	% of Canada
1949	\$260	\$185	71.2	\$117	45.0
1950	278	191	68.7	130	46.8
1951	327	195	59.6	161	49.2
1952	365	199	54.5	230	63.0
1953	393	218	55.5	209	53.2
1954	368	223	60.6	184	50.0
1955	405	265	65.4	219	54.1
1956	499	291	58.3	228	45.7
1957	526	270	51.3	236	44.9
1958	494	281	56.9	237	48.0
1959	483	331	68.5	256	53.0
1960*	460	311	67.6	328	70.7
1961*	461	295	64.0	375	81.3

* Preliminary Actual.

**Intentions.

Source: Department of Trade and Commerce, Private and Public Investment in Canada, various issues.



With a lag in investment of this magnitude a lag in development is to be expected. Increased levels of capital accumulation hold the key to accelerated economic growth in the Atlantic provinces.

Table 6
New Investment Per Capital in Buildings and Machinery, Canada and Atlantic Provinces, 1949-51

Year	Per Capital Inv.	Per Capital Inv.	% of Canada	Per Capital Inv.
1949	\$260	\$185	71.5	\$117
1950	278	191	68.7	130
1951	327	195	59.6	161
1952	365	199	54.5	220
1953	393	218	55.5	209
1954	368	223	60.6	184
1955	405	235	58.4	219
1956	499	291	58.3	229
1957	536	370*	61.3	235
1958	494	361	66.9	237
1959	485	381	68.5	253
1960*	460	371	67.6	229
1961*	461	395	64.0	215

* Preliminary Actual.

and Public Investment in Canada, various issues.

